COMMERCE
ITS THEORY AND PRACTICE

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PRACTICE

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PREFACE

My plea, if plea be needed, for adding yet another to the plethora of books on the Theory and Practice of Commerce is twofold. First, a long experience of the requirements of examining bodies and the vagaries of examiners has revealed to me the great difficulty with which students are faced in their endeavour to amass the vast amount of information necessary to enable them to deal reasonably with the questions set at present-day examinations. The field covered by modern examination papers is so wide that, failing such a book as this, a veritable library of books and papers would have to be consulted; and this, of course, is often impossible to the average business student. Then, so greatly has the old order changed, that existing compendiums of knowledge, excellent though they be, cannot now be safely relied upon as applying to an entirely new order.

With these two facts before me, I have tried to give within the confines of one volume a true picture of the theory and organisation of present-day commerce. Such a task has necessarily implied the treatment of a wide range of subjects, but this I have tried to do without, I hope, involving any sacrifice of brevity and conciseness.

My approach to the manifold divisions of the subject has been entirely practical. I have sought to show by diagram and description the practical aspects of the important branches of the industrial and commercial machine. And if by chance this book should be found interesting as well as useful, I shall have achieved my hope that it will appeal not only to the examination candidate whom it is primarily intended to serve, but also to those students of affairs and to business men who, in seeking for brief information on the many topics which constantly arise in the course of a business day, have often to look far and wide and tediously wade through copious tomes.

In the preparation of the Fourth Edition, I have taken the

opportunity of carefully revising the text and of introducing new matter wherever it seemed to be desirable, more particularly with a view to covering matters of topical importance.

Throughout the work I have, of necessity, had recourse to numerous sources of information and to many authoritative works. To these I can but make general acknowledgment of my debt.

S. E. T.

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COMMERCE: ITS THEORY AND PRACTICE

PART I

THE HISTORICAL BASIS

CHAPTER 1

THE BEGINNINGS OF COMMERCE

COMMERCE, in which term are embraced all those functions involved in the buying and selling of goods, is now a vast and complex organism. But it is only in comparatively recent times that it has achieved anything approaching its present importance and dimensions. Commerce may be said to have begun when exchange began. In primitive economic society, when each family was self-supporting, both trade and commerce were unnecessary; but, with the extension of the division of labour and the development of exchange, commerce began its virile growth and extended its tentacles throughout the length and breadth of the world.

Commerce in the Ancient East.

THE EGYPTIANS, who were a very highly civilised people, could never sufficiently overcome their exclusiveness to develop into successful foreign traders. They applied their energies to the development of their land, which was so fertile and so well-irrigated that they felt no need for the products of other countries; so that, while they themselves became successful farmers and skilful manufacturers, they permitted their external trade to be monopolised by foreigners—first the Phœnicians and later the Greeks.

THE PHŒNICIANS, long the foremost traders in the ancient East, inhabited a narrow strip of land on the eastern coast of the Mediterranean, and their trade was centred chiefly in Tyre, whence they traded by land and by sea. Their traders developed amazingly. They became in turn successful fishermen, shipbuilders and skilful navigators, establishing themselves not only along the shores of the Mediterranean but also in Western Africa, and even penetrating as far north as

Cornwall. Tyre was for a time the leading commercial city of the ancient world. Wherever commerce penetrated her fame was carried by her traders, who exploited every region of the then known world in quest of trade. Unhappily, in the ninth century B.C., internal troubles and wars in Western Asia led to her downfall, and her place as a commercial centre was taken by Carthage, a colony on the north coast of Africa.

THE GREEKS owed their commercial and maritime development largely to geographical influences. Their country was in an excellent position for the interchange of goods with Persia, Russia, and Central and Northern Europe, while the natural resources of the land provided ample material for an extensive foreign trade. During the tenth century B.C., Corinth established itself as the leading commercial centre of Greece, but in the fifth century B.C., Athens assumed the leadership in both commerce and manufacture, and retained that position until the fourth century B.C. In the later part of this century, the Emperor Alexander of Macedon (known as Alexander the Great), built up a wonderful Empire extending from the Mediterranean to India, with its centre at Alexandria, named after the founder, which for some years was unrivalled as the hub of commerce in the then known world. After the death of its illustrious ruler, however, the Empire gradually decayed and Rome ultimately came to the fore.

The Commerce of the Romans.

In the struggle between Carthage and Greece, Rome had supported the former, but with the fall of Pyrrhus (272 B.C.) and the division of Grecian territory among the victors, Carthage and Rome came into conflict. Rome triumphed and became a great maritime nation, spreading her civilisation throughout the world. As her conquests developed and her maritime power increased, she became the world's leading commercial nation, and this not so much by the enterprise of her citizens as by the acquisition or absorption of the trade of maritime nations which she overthrew and brought under her dominion.

Under Republican Rome both industry and commerce had been sacrificed to speculation in land, but from the early days of the Roman Empire there was a marked revival, and, under the great Emperor Augustus, a new industrial era began. Rome was never a great manufacturing city, although she became the centre of a vast entrepôt business dealing in imports of extra ordinary variety gathered from all parts of the world—from Italy, France, Britain, Germany, the Baltic countries, Greece, Syria, Phœnicia, Persia, Arabia and Africa.

Unfortunately the remarkable success of the Empire brought in its train a degree of public and individual extravagance which has probably never since been equalled or even approached, and ultimately these factors caused not only the downfall of the

Empire but also the utter ruin and disorganisation of that vast commercial system for which Rome was once justly famous.

Mediæval Commerce.

With the fall of the Roman Empire in 476 A.D., opportunities for development arose in other parts of Europe, although in the period known as " mediæval times " the growth of trade was greatly hindered by political disturbances, and by the rise and fall of many Empires. The centre of commerce at the time of the fall of Rome was the Mediterranean, but in subsequent years this region, as well as the rest of Europe, suffered severely from the depredations of hordes of " barbarians " from the north and the east. In the fourth century, Constantine the Great founded the Byzantine Empire with its hub at Constantinople. In the sixth century, Justinian revived the power of the Romans and for a time drove out the invaders from the Mediterranean countries, but early in the seventh century the Mohammedan Empire revived and progressed to such an extent as to become the greatest of all Empires, entirely absorbing the Byzantine Empire, and spreading eventually from Spain to India. Commerce received a great impetus, and the Mohammedans traded with countries as far north as the Baltic and as far south as Central Africa.

Meanwhile, central Europe was still troubled by the incursions of the " barbarians," and it was not until the end of the eighth century that conditions became more settled, especially in the west, where the great Emperor Charlemagne established sway over a vast territory. The ensuing period saw the rise of Papal dominion in Europe, and the year 1095 witnessed the first Crusade against the Turks. From this time onwards, for over a hundred and fifty years, the Crusades continued and were undoubtedly largely responsible not only for the spread of commerce but also for the establishment of a bond between the nations of Christendom. Admittedly towards the end of the period the unity was far more apparent than real, but the economic effects were by no means negligible.

Following the Crusades came a period of internal national development. The thirteenth and fourteenth centuries were marked by the growth in Europe of independent cities, amongst which, besides Venice, Genoa and Florence—the great commercial cities of the thirteenth century—were Paris, Antwerp, Bruges and London. The natural outcome of this development was the growth of *Leagues* between the independent cities. These Leagues, notably the Hanseatic, the Rhenish and the Swabian, were important chiefly in Germany, and their object was definitely to co-operate in defending the constituent countries and their trade routes against robbery on land and piracy on the sea. The growth of commerce under League influence, and especially that of the Hanseatic League, was typical of

the revival, known as the *Renaissance*, which marked the transition from mediæval to modern times.

Commercial Obstacles.

Though commercial development in western Europe, first in the south and then in the north, took place during the second half of the Middle Ages, progress was extremely slow until the eleventh century. Then it showed signs of revival, in spite of the many obstacles to be overcome, especially those which were due to difficulties of transport, to the general prejudice against merchants and traders (particularly those whose business involved lending capital), and, finally, to the absence of sound monetary systems.

Transport Difficulties at this period were among the great obstacles to a gradually developing international and internal trade. Forests were uncleared, bridges were poor and badly constructed, while roads were little more than what we should now regard as rough tracks. Moreover, tolls and customs duties, trade restrictions and constant wars, made the transport of goods between one country and another a matter of great trouble, inconvenience and uncertainty. On the sea, transport conditions were also bad: trading vessels were primitive, navigation was imperfect, and the dangers of war and of piracy were constantly threatening.

Popular Prejudice against merchants and traders, which was general throughout the Middle Ages, was also a serious obstacle to the growth of trade, particularly as it was fostered by both the Church and the feudal system.

The Monetary Systems in existence at this period were very badly organised, and trade suffered as much from the general scarcity of acceptable media of exchange as from the use of innumerable varieties of money.

Confusion, evil practices and corruption were the marked features of the money and banking systems of Europe during many long years of its early commercial history. During the first ten centuries A.D., the supply of circulating specie decreased, mainly on account of its export to the East to pay for luxuries, but also by reason of the preference of feudal lords for payment in cash and the widespread hoarding of bullion in the Church.

In spite of these circumstances, the coinage of money gradually increased, and each state aimed at having its own distinctive system. Silver was easily the principal metal in use, though Charlemagne had introduced into western countries a form of bimetallism, *i.e.*, a dual currency of gold and silver. As each state developed its own coinage system, there grew up an extensive and lucrative business of money-changing, concentrated chiefly in the hands of the Jews and Florentines, who had special gifts for this class of business and combined with it certain essentially banking functions.

Finally, *agriculture* and *manufacture* were in a markedly backward condition, and this accounted very largely for the slow progress of the world's trade.

The Influence of the Church.

Though in some respects the teachings of the mediæval Christian Church were an obstacle to the growth of commerce, they were by no means a negligible factor in fostering that growth. Labour was encouraged by the doctrine of human brotherhood and equality, while work could not but be successful under the rules of peace and order which were the fundamental principles of religion. Moreover, the industry and pioneer work which were such a feature of the monasteries greatly stimulated the development of both commerce and industry.

On the other hand, the mediæval Church severely condemned both profit and usury and forbade the taking of interest. The Church regarded commerce as non-productive and held that any profit which might accrue was not justified. Trade with infidels was forbidden, and, though the Crusades opened up a lucrative and extensive trade with the East, the Church refused to sanction trade with the Moslems.

Clearly, the point of view of the Middle Ages in regard to commercial matters was radically different from that of modern times. Competition was discouraged. To seek to obtain large profits was regarded as little better than sharp practice, and those in authority tried to fix a price for goods which should be fair to all parties. The idea that it might be advantageous for a country as a whole to be rich had not yet gained ground, and consequently there was no attempt at any definite trade policy, individual questions being dealt with as they arose. And since usury, or the lending of money at interest, was opposed to the teaching of the Church, very little money could be borrowed for the purpose of initiating or extending commercial undertakings. Hence, it is not surprising to find that our trade during this period was extremely limited in extent, being, indeed, mainly confined to the import and export of wool. Not until the close of the Middle Ages were these restrictions abolished, and, largely owing to the influence of the Church, commercial progress in western countries was postponed for many years.

Other Restrictive Influences.

Another restrictive influence was the general tendency, among the innumerable governments which held sway in Europe, to regulate both the conduct and the growth of industry and commerce. This interference, though undoubtedly to some extent necessary, resulted in a complicated and extensive system of restrictions and tariffs which, apart from the fact that they

varied considerably between the different states, brought in their wake continuous strife both within the borders of the state and beyond them.

The forms taken by these restrictions were innumerable. They sought to define the exact scope of each industry, to prescribe the extent of output, the trade routes which could be used, the times of departure of ships, the extent and nature of the cargo, the selling prices of goods and the conditions under which industry could be carried on. The system—if it deserves the name—soon degenerated into a lucrative source of revenue for unscrupulous monarchs and lords, and had the unhappy result of shackling a vigorously struggling industry with an impenetrable tangle of regulative edicts, in many cases as useless as they were incomprehensible.

Progress of Towns.

The system of regulation and protection had, however, one good result—it fostered the growth of towns and of the *craft* and *industrial gilds*, particularly in western Europe. After the eleventh century, as the volume of trade increased, *manorial villages* became important market centres and, in those cases where the town was under the protection of a castle or a monastery, development was rapid and prosperity assured. Townsfolk benefited by having more security of property and also more personal freedom, and, as the number and wealth of the townsmen (*burgesses*) grew, they were able to purchase the remaining rights of the land and become possessed of a "charter" which implied self-government in the town. From time to time opportunities arose for purchasing charters advantageously owing to the needs of the King or of the Lord of the Manor for funds for the purpose of Crusades or for castle building. The great era of town-emancipation in England dates from about the middle of the twelfth century to the Black Death in 1348, and, as might be expected, the regulation and direction of trade which became the business of the town authority provided a firmer basis for the accumulation of wealth. Moreover, an important aspect of the granting of the charter was the fact that it usually permitted the townsmen to form what was known as a *merchant gild.*

Merchant Gilds.

The merchant gilds were associations of merchants formed primarily for the regulation of trade, the members being drawn from merchants and craftsmen of all trades within the town. The functions of the gilds were varied in the extreme. They undertook the control and monopoly of all the trades in the town except the trade in victuals, which was free; they represented the town in dealings with other towns; they maintained the policy of self-protection, *i.e.*, the system under which no

"foreigner" could attend a gild meeting or buy or sell within the town boundaries without paying toll, whereas the gild members dealt freely within the town and were also able to trade in other parts of the country without becoming liable to heavy tolls. The gilds also did much to minimise fraud by insisting that sales must be open and before witnesses, and by fixing the prices and qualities of goods. Finally, they performed many of the functions of the modern trade union or mutual benefit society, by attending to the succour of members during sickness or unemployment, providing funeral benefits, and caring for widows and children of deceased members.

Craft Gilds.

In the twelfth century the craftsman came to occupy a position at least as important as that of the merchant, for by his skill and dexterity he was able to achieve success and prosperity. As a result, the single all-embracing merchant gild gave place to many *craft gilds*. These gilds controlled conditions within their respective crafts by regulating the buying and selling of the goods produced by their members, fixing prices and qualities, and acting as "friendly" and "benefit" societies, just as the merchant gild had done for its more varied constituency.

Mediæval Culture.

The culture of the Middle Ages, which manifested itself in the creation of the masterpieces in art and literature of the Renaissance, was to no small extent fostered by the commerce of the period. By the growing wealth of the towns the artists of the age were provided with the means to enable them to devote their energies and skill to the creation of those works which are still unrivalled for their wealth of beauty and perfection of workmanship.

QUESTIONS BEARING ON CHAPTER 1

1. What do you understand by the term "Commerce"?

2. To what factor would you attribute the rise of a nation in the ancient world to a position of leadership in foreign trade?

3. Briefly describe the outstanding characteristics of mediæval com merce.

4. What relation, if any, was there between the Church and the development of commerce in the Middle Ages?

5. Give an account of the factors which in mediæval times contributed to the growth of towns.

6. Distinguish between a "merchant" gild and a "craft" gild, and estimate the importance of each in the early rise of trade.

CHAPTER 2

COMMERCE IN THE MODERN ERA

THE modern era may be said to have begun with the great geographical discoveries which changed completely the commercial centres of the world and effectively transferred the centres of commerce from the shores of the Mediterranean to the countries bordering on the Atlantic.

THE DISCOVERY OF AMERICA followed the landing of Christopher Columbus in the West Indies in 1492. Commercially this event was of the greatest significance. Not only did it transfer the centre of the maritime power from the Baltic and Mediterranean to the Atlantic Ocean, but it also introduced into Europe a number of new products, such as maize, rice, tobacco, cocoa, potatoes, coffee, pepper, cane sugar, cotton and indigo, which had hitherto been unknown.

THE DISCOVERY OF THE ROUTE ROUND THE CAPE OF GOOD HOPE was, after several attempts, finally achieved by Vasco da Gama in 1497. This discovery, while it opened up the vast potential resources of Africa, was unfortunately the prelude to the *slave trade*, that lucrative but horrible business, which was originated by the Portuguese, but which was later adopted by nearly all the nations of Europe and persisted until well into the nineteenth century.

THE CIRCUMNAVIGATION OF THE EARTH was effected in 1522, and, by proving that ships could proceed outwards by one route and return home by a different but scarcely longer one, it paved the way for a remunerative extension of commercial enterprise.

Merchants of the Staple and Merchant Adventurers.

The association of merchants under the Hanseatic League of the Continent was imitated in this country by the formation first of the *Merchants of the Staple*, who were engaged purely in the wool trade, and then by the rise of the *Merchant Adventurers*, who received their Charter in 1407. They were powerful bodies of merchants, trading separately but under regulation, and the object of the associations was primarily that of self-protection. With the growth in their strength, however, they became more ambitious and sought to crush competition and secure monopolies. They were undoubtedly a powerful factor in the rise of commerce in this country.

Trading Companies.

The Merchant Adventurers were succeeded by another type of organisation, that of the *Trading Company.* During the sixteenth century the voyages of discovery opened up vast vistas of commercial development which brought about the formation of powerful joint-stock companies for the exploitation of the new territories and new resources. Amongst others were the Muscovy Company, the Levant Company, the East India Company, and, later, the Hudson Bay Company. Under the energetic handling of these companies, foreign commerce in this country was given a great stimulus. Hitherto, foreign trade had been a matter mostly of individual enterprise, but now it was placed on a basis of joint enterprise and large capital, with the result that it made rapid strides.

Mercantilism.

Colonial expansion and the growth of trade led to a considerable development of the powers and functions of the central authority, and to the need also for some degree of governmental control of the trading machine.

During the fifteenth and sixteenth centuries, attempts to direct industry and trade took much more definite shape, and culminated in what is known as *Mercantilism.* This system, if it may be called a system, reached its prime in the seventeenth century, when it was universally adopted by nations which took any share in the foreign trade of the period.

The main object of Mercantilism was the development of *National Power.* It was based on the doctrine that by extending its foreign trade far more than its home trade, a nation most rapidly and easily became wealthy and powerful. It was argued that, since wealth obviously conferred power on the individual, the possession of a large amount of money by a nation must also confer power on that nation. To this end, the exponents advocated the maintenance of a strong navy by encouraging native shipping; the protection of native corn-growers to ensure independence in time of war and to foster the growth of a race of hardy "yeoman" fighters; the "*protection*" of home industries, with the corresponding aim of discouraging the trade of other countries; and the collection and retention in the country of a large supply of gold and silver bullion.

The Navigation Acts (1381–1672).

In our own country one of the chief aims of the government was the care of our ships and shipping as the surest source of our island nation's power on the sea, and of her wealth as a rapidly developing trading nation. Consequently, a number of measures were introduced with the avowed object of en-

couraging the growth and strength of our mercantile marine, and of these the most important were the so-called *Navigation Laws.* The first Navigation Act was passed in 1381 "to increase the Navy of England which is now greatly diminished." Later, Henry VII. compelled the wine exporters of Gascony to use English ships in the wine trade and excluded foreign ships from our coasting trade. Under Cromwell and after the Restoration the Navigation Laws became part of a more clearly defined policy—the crushing of the Dutch carrying trade, its transference to ourselves, and the exploitation of our Colonies. An Act of 1650 allowed no foreign ship to trade with the American Colonies without a licence, while an Act of 1651 provided that there should be no imports into England except in English vessels, or in the vessels of the country from which the goods came. In 1660 it was enacted that all colonial produce must be exported in English vessels, that no alien was to be a merchant in our Colonies, and that sugar, cotton, rice, fur, dyewoods and indigo were to be sent only to England. By the Act of 1663 the Colonies were allowed to receive no goods whatever in foreign vessels. The legislation of 1651 was continued in 1672, and the importation of all the principal articles of commerce was prohibited unless they were carried in English ships, manned by a crew of which at least three-fourths were English. This Act, combined with the wars of the Protectorate and Restoration period, ruined the Dutch merchant fleet.

Amassing National Wealth.

The policy of the Mercantilists was to amass as much national wealth as possible. They were convinced that the only permanent form wealth could take was that of gold and silver bullion, so they made it their aim to increase the national holdings of these metals. To this end they adopted a number of expedients but especially :—

(1) The retention in the kingdom of gold and silver by means of regulations. In 1381, the export of gold or silver from this country was prohibited, and later, in 1478, the exportation of bullion was made a felony.

(2) The maintenance of a supply of bullion constantly increasing in quantity, by maintaining a favourable annual "*Balance of Trade*"; that is, ensuring an excess of exports over imports, so that the difference would have to be paid in the form of gold, and would thus represent a monetary surplus accruing to the nation each year.

THE INDUSTRIAL REVOLUTION

It was in England, about the middle of the eighteenth century, that the stirrings of what is known as the "Industrial Revolution" first became apparent. Though the same changes were subsequently experienced by many other countries, the effects there were not so severe as in this country, for other nations had our experience before them and were able to take steps to obviate much of the suffering and disaster which in England were as inevitable as they were unexpected.

The General Effects of the Industrial Revolution.

THE RISE OF NEW INDUSTRIES.—Of these, coal-mining, cotton and industries connected with cotton, *e.g.*, bleaching, printing, dyeing, were the most important.

THE RE-ORGANISATION OF OLD INDUSTRIES.—This involved a complete change in the economic structure of industries, but the change in some, particularly in the woollen industry, where the domestic system prevailed, was much slower than in others

THE DEVELOPMENT OF LARGE SCALE ENTERPRISE.—The unit of production in all industries increased rapidly, while specialisation and the division of processes proceeded apace.

THE GROWTH OF CAPITALISM AND THE NEW CAPITALIST CLASS.—The capital supplied by individuals was no longer adequate where extensive plant and machinery were required. Capital became impersonal and a class of absentee capitalists developed, while employees became entirely dependent on employers, both for wages and for work.

MIGRATION OF INDUSTRY.—Industries became localised where power was found, and new districts, especially the Midlands, Northern England, Wales and Scotland, became important industrial centres.

DECAY OF THE DOMESTIC SYSTEM AND GROWTH OF THE FACTORY SYSTEM.—This was inevitable as power was now generated in a fixed spot and distributed over a small area only, and as machinery was substituted for hand work.

GROWTH OF TOWNS.—People followed industry with a view to the greater earnings which it afforded, and population tended to be concentrated on the coal-fields. Unhappily this concentration brought in its train most unhealthy and insanitary conditions.

Application of Machinery to Industry.

Machinery, with its great saving of effort, man-power, drudgery and monotony, was first applied in the cotton industry, then in the linen, wool and silk industries. Between 1730 and 1810 a number of inventions transformed the existing methods of production and enabled industry in this country to progress by leaps and bounds :—

Kay's Flying Shuttle, 1733.—This doubled the output of the weaving process, which thereupon much outpaced spinning, an operation conducted by women and children, and as a result there was a scarcity of yarn available for weavers.

Hargreaves' Spinning Jenny, 1765, made it possible for one worker to operate a number of spindles, and so redressed the balance between spinning and weaving by increasing the rate of spinning. The general effect at this time was that without any change in quality both weaving and spinning had been "speeded up," but no new principle of industry had yet been introduced, since the jenny could be used in the home. The revolution really began with—

Arkwright's "Water-Frame," 1769–1775.—This marked the beginning of the true cotton *industry*. To use this water-frame power was essential, and so production had to be concentrated on factory lines; but the invention was only slowly adopted, because the workers were loth to leave their homes and to enter factories.

Crompton's "Mule," 1779, enabled very fine yarn to be spun, and laid the foundation of the muslin industry.

Cartwright's "Power-Loom."—In 1789, Cartwright invented a loom which could be driven by steam, and this, by its greater output, again redressed the balance between spinning and weaving which had been disturbed by the inventions of Arkwright and Crompton.

Murray followed this up by inventing a machine for spinning flax, and so began the application of machinery to linen manufacture. Gott applied it to wool, and, in 1804, the Jacquard loom was first used in the manufacture of silk. Some years before Bell had invented a new method of printing calicoes, whilst Nottingham was placed on the high road to prosperity by the lace-making machines of Heathcoat (1809) and of Levers (1813).

The Steam-Engine.—During the years 1769–1782 James Watt secured patents for his improvements in the steam-engine, and his epoch-making work instituted a world-wide change. From 1776, the use and perfection of the steam-engine developed rapidly and resulted in increased economies, more easy working and further adaptations of power-driven machinery.

The steam-engine was originally an auxiliary to coal-mining, being used for pumping water from the mines. But its efficiency permitted deeper shafts and the winning of coal which otherwise would probably not have been made available. In the seventeenth century, for example, shafts were often only sixty feet deep, but not many years after the invention of the steam-engine they were sunk to several hundreds of feet. Moreover, the application of steam to the loom and other industrial machines caused the textile industries to migrate to

regions where coal was abundant, and so led to the development of the great "cotton area" of Lancashire and the almost equally important "woollen area" of Yorkshire.

Coal and Iron.

With the introduction of the steam-engine into the coal-mining industry the use of coal rapidly increased and soon ousted charcoal, which had hitherto been the main source of heat in the iron furnaces. This was followed by a number of eventful improvements in the methods of production of iron and steel. The Darbys successfully used coal in the Coalbrookdale Works with an improved blasting engine. About 1760, Huntsman invented at Sheffield a method for preparing cast-steel which rendered iron more workable, and when his process was perfected Sheffield became at once the greatest centre of steel manufacture in the world. During 1780–1783, Henry Cort introduced "puddling," and applied grooved rollers instead of hammers in iron manufacture. His inventions multiplied many times the production of malleable iron, and converted South Wales into a great industrial region. Moreover, they were momentous in that they provided Watt and Wilkinson with improved material for making satisfactory cylinders for steam-engines. Finally, the work of Maudslay and Whitworth at about the same time was of vast importance in introducing greater accuracy into machinery and so leading to standardisation.

Communications.

ROADS.—The greatly increased wheeled traffic of the seventeenth and eighteenth centuries had reduced the roads, at no time much more than bridle paths, to a deplorable condition just when the growing industrialism necessitated their increased use. Fortunately, new principles of road construction were forthcoming as a result of the labours of Metcalf, Telford and Macadam.

CANALS.—Brindley (1716–1772) constructed, at the expense of the Duke of Bridgewater, a canal from Worsley to Manchester in 1761. He also connected Manchester with Liverpool through Runcorn, and thus laid the foundation of a greatly increased prosperity for both towns. Coal carried by canal was sold in Manchester at one-half of its former price, while the transference of the wool and cotton export trade from Bristol to Liverpool led to the growth of the latter town as the leading western port.

By the Grand Trunk Canal, Brindley made possible water communication between Liverpool, Bristol and Hull, while at the same time opening up the salt district of Cheshire, and the pottery district of Staffordshire. Josiah Wedgwood built his famous manufactory at Etruria, close to the proposed line of the canal, and was enabled to reduce by 75 per cent. the cost

of carriage of both his manufactures and his raw material. One result of the construction of this canal was that the population of the Potteries trebled itself in twenty-five years. The Coventry Canal was built to connect the Grand Trunk with London, the Droitwich Canal to afford an outlet from the salt-mining areas to the Severn, and the Chesterfield Canal to open up the mineral districts of Derbyshire.

RAILWAYS.—Probably the greatest of all revolutions was the advent of the railways, now rapidly built to cope with the increasing traffic which had outgrown the capacity of the existing canals. The first railways were built by private capital; they received no support from the State, and no uniform plan was adopted. Moreover, their cost was very high owing to the resistance, mainly sentimental, of the public, and the fact that huge sums had to be paid to landowners by way of compensation. The original railway trucks were used only for the carriage of goods and were drawn along wooden rails by horses, but vast progress dated from the use of steam by the Stockton and Darlington Railway—also the first public railway to carry passengers.

Commencing in 1836 there was a vast railway boom, many new railways were projected, and, by 1838, more than 490 miles of railroad were in operation in England and Wales.

The Agrarian Revolution.

The movement towards agricultural change, which presently matured to revolution, long preceded the birth of the revolution in industry. Vital changes were taking place in agriculture in the first years of the eighteenth century—almost a generation before even the invention of the "flying shuttle." And the effect of the "new farming" was as detrimental to the "old farming" as the power-loom was ruinous to the hand weaver. The changes in agricultural methods were due mainly to the teaching of a number of distinguished agriculturists—especially Tull, Townshend, Bakewell and Arthur Young—who applied experiment and scientific observation in a region where conservatism had been most securely lodged.

Enclosures.

The success of the new methods of farming and the constant need for experiment necessitated the enclosing of land which up to this point had been undivided. So, between 1710 and 1867 nearly 12,000 square miles were enclosed. Most of the early enclosures took place in the period 1770–1780 and coincided with the success of the new machinery for textiles. The second great enclosure period, 1800–1820, was a period of rapidly increasing population in the towns, due to the ruin of the domestic spinning industry, and to the disturbance of our import trade following the Napoleonic Wars. As a result there

were heavy demands on the food supply, and agricultural enterprise received a great impetus.

Free Trade.

The movement for free trade and the removal of mediæval restrictions on the growth of industry and trade owes its inception to the appearance of Adam Smith's famous work, *The Wealth of Nations* (1776). With the unexampled growth of industry and trade the movement obtained wide support, though its success in this country was mainly attributable to four men—Huskisson, Peel, Cobden and Gladstone—who were largely instrumental in removing the many restrictions which still hampered our trade and industrial machine.

With the restrictions removed and the free importation of raw materials, so essential to the manufacturers of this country, came such prosperity to England that she was placed easily first among the nations for the extent of her commerce, the development of her industry, the wealth of her people and the reputation of her merchants, shippers, dealers and industrialists. Moreover, the nation of shopkeepers became a nation of bankers and financiers, and, on the certain foundation of an unrivalled industrial predominance, England erected for herself a financial leadership of unquestionable strength and one which she has maintained in spite of the recent world difficulties.

QUESTIONS BEARING ON CHAPTER 2

1. What important events marked the division between the early trading activities of the world and the modern era ?

2. Briefly explain what is meant by (*a*) Merchants of the Staple ; (*b*) Merchant Adventurers ; and (*c*) the Great Trading Companies.

3. " The policy of Mercantilism was the beginning of nationhood." Is this a correct estimate, and if so, why ?

4. Discuss the objects of the Navigation Laws.

5. Explain what you understand by the " Industrial Revolution," and give a summary of its main effects.

6. What important steps marked the application of machinery to industry ?

7. Why did the development of the steam-engine revolutionise industrial progress both here and abroad ?

8. Give some account of the development of communication by road, canal and railway in Britain in the early years of the nineteenth century.

9. Briefly explain (*a*) the Agrarian Revolution ; (*b*) Enclosures ; and (*c*) Free Trade.

PART II

ECONOMICS AND COMMERCE

CHAPTER 3

THE ECONOMIC BASIS

COMMERCE, or, as it is sometimes called, Business Economics, is a division of the comprehensive science of Economics, that highly interesting body of knowledge which considers the actions of man in relation to wealth. Whereas Economics in general is concerned with the production and distribution of wealth from the point of view of the nation, or, indeed, of the world, Commerce is more limited in scope, and confines itself to a consideration of the subject from the point of view of the business man. Commerce, in brief, is the practice of wealth-getting.

Economics may be distinguished from other social sciences by the fact that its whole superstructure is erected around the term "wealth." In the study of Economics, we investigate how wealth is *produced* in various parts of the world; how it is *exchanged* between man and man, and between one community and another; how the individuals who take part in production *distribute* the wealth among themselves; and, finally, how the persons who obtain possession of wealth use it, or, in other words, *consume* it, to satisfy their individual or joint needs.

The Nature of Wealth.

Originally, the meaning of the term "wealth" was synonymous with that of our modern terms "welfare" and "well-being," but it has become restricted in modern economic usage, and now refers to those goods which have three important characteristics, *viz.*: (1) *Utility*, *i.e.*, the power to satisfy a want; (2) *Limitation of quantity*; and (3) the *Power of being transferred*, *i.e.*, the capability of having their ownership transferred from one person to another.

A commodity that satisfies these conditions has *value*, and from an economic point of view is wealth. Though a doctor's skill is not wealth, the application of his skill in the

form of services fulfils the necessary conditions and *is* wealth. Some things, though extremely useful to man, have little or no value *in exchange* because their supply is large or even unlimited. Neither sunshine nor rain-water, for instance, is in ordinary circumstances regarded by an economist as wealth, although the usefulness of both is undisputed.

Some controversy surrounds the question whether documents of title such as bills of lading, instruments of transfer, and media of exchange can correctly be regarded as wealth. It is considered by some authorities that, though they satisfy the requirements of the accepted definition of wealth, yet they cannot properly be regarded as wealth because they merely *represent* wealth in some form or another, whether in the form of goods, shares in an industrial concern or funds in the hands of a bank. Those who accept this point of view argue that a sovereign is not wealth, because it is merely a symbol or token used as a medium of exchange—that the gold contained in the coin *is* wealth but that the sovereign itself is not.

It seems more logical, however, to regard all forms of money as wealth. It is true that money is very rarely desired *for its own sake*, and that it is impossible to improve the worker's standard of living merely by increasing the volume of money. But to deduce from this that money is not wealth leads to illogical conclusions. It means that we must accept the thesis that gold bullion is wealth but that a gold sovereign is not, and we should have to say that diamonds would cease to be wealth if, at any time, they were used as a medium of exchange.

Much private or individual wealth consists of *rights* and *privileges* involving corresponding obligations. If these rights were cancelled, the wealth of the community would not be decreased. Wealth in this form is sometimes referred to as *negative* wealth. Moreover, if individual wealth were socialised, then, so long as production was not interfered with, the total wealth of the community would remain the same

"Free" Goods and "Economic" Goods.

The term *Free Goods* is applied to those things which are free to all; as, for example, air, sunshine and sea-water. *Economic Goods*, on the other hand, are those commodities and services which have value; *i.e.*, those articles or commodities which command a price.

Material Goods consist of material objects such as food, clothes and shelter; or of those benefits which accrue to man from the possession of material goods, *e.g.*, copyrights and rights to tithe-rent and tolls. *Non-material* goods are subjective; they comprise a man's abilities and attributes, and such intangible items as goodwill and business repute.

Production.

All those factors which add value, *i.e.*, the capacity to command a price, to existing commodities play their part in *producing* wealth. Matter can neither be created nor destroyed. Its form may be altered, and it may be transferred from one place to another, so as to make it more useful, more acceptable or more serviceable to man. The production of cotton goods, for example, includes not only the growing and the weaving, the bleaching and the printing, but also the transportation and the distribution to the ultimate consumer. The trader who brings a commodity from a region where it has relatively little value to one where it is of more value is a producer who adds to the original commodity the attribute called *place value*. In like manner, retailers, transport workers, clerks and typists, some of whom never see the commodities they help to produce, are all doing their part, in greater or less degree, to operate the vast productive machine and to increase the value of raw materials and other commodities.

Consumption.

Consumption is the *raison d'être* of all economic activity, and its study involves an analysis of the wants of man and the satisfaction of such wants.

Consumption means the satisfaction of need by the destruction of values. In some cases this destruction is extremely rapid, as where a miner explodes a charge of dynamite to blast a passage through a rock. In other cases, it is extremely slow, as in the case of coins or books or furniture. Moreover, consumption is applicable as much to services as it is to goods; the services of a bricklayer are consumed in building a house, while those of a skilled surgeon are being consumed during the performance of an operation.

If a commodity or service is consumed in order to produce something further, as is the case with cloth used in the making of a coat or as is the case with the labour services of the tailor, *productive consumption* is taking place. If, however, a commodity or service is consumed directly to satisfy a want, without any intention of indirectly producing something else, the process is one of *unproductive consumption.* A visit to a theatre represents unproductive consumption of the services of those who minister to our enjoyment. The line of demarcation is not always clear, and it is not of practical importance, but it should be obvious that "unproductive" consumption is not undesirable; it is the ultimate objective of all productive activities.

munity do not produce all they require for their own use. They concentrate on the production of only a few commodities, or even on parts of commodities, or they apply themselves to the provision of services of a specialised kind. Their object is to produce some article, some commodity or some service which will command in exchange for itself the goods and services produced by other members of the community which they require.

The branch of Economics which deals with the function of exchange has become extremely important and vastly complicated with the development of the economic system. The exchange of one commodity for another was effected in primitive times by direct barter, and it is so effected even now among primitive peoples; but the growing complexity of society made necessary the introduction of a medium of exchange—*money*. Hence, an examination of the mechanism of exchange involves the study of money, and of a variety of highly complex currency and banking problems.

National Income or Dividend.

The aggregate of all values produced by a community is known as the *National Income* or the *National Dividend.* This is at once the net product of industry and also the aggregate reward of all the agents who produce that income. It comprises *wages* for labour, *interest* on capital, *rent* on land, and *pure profit* for the *entrepreneur* or organiser, who, after paying the other agents, takes what remains as the reward for his enterprise.

Distribution.

This *Net Product* or *National Dividend* is continuously *distributed* among the several factors or agents which combine in its production. But the term "distribution," as it is here used in an economic sense, has a far wider meaning than that of the mere transfer of goods from place to place, through some "distributive" agency such as the railway. Distribution in Economics means the *apportioning of the income derived from the joint effort of a group of producers among the various members of that group.*

Distribution is at the root of almost all disputes between Labour and Capital. Labour objects to the present basis or system of distribution on the ground that the capitalist and the landlord receive more than their fair share of the National Dividend, while the other two agents contend that the proportion they receive is no more than their due for the important parts which they respectively play in production.

The Amount of Wealth to be distributed depends on the total volume which has been produced, and represents the *net product* of industry, *i.e.*, the balance of gross product after deductions have been made for the costs of the raw materials,

the wear and tear of machinery, etc., consumed during the productive process.

THE PEOPLE WHO RECEIVE A SHARE of the product are all those who have assisted in producing it, *i.e.*, workers, landowners, capitalists and *entrepreneurs*. They provide the so-called " agents of production "—labour, land, capital and organisation or enterprise.

THE SHARE OF EACH GROUP AND OF THE INDIVIDUALS comprising the group is not some proportion of the net product which the particular industry or group produces; actually it takes the form of money, paid in return for services rendered, which provides the purchasing power whereby the individuals in the group are enabled to claim a share in the product of all other industries and services within the community.

The Method of Distribution.

If any particular individual can be said to be the distributor of the net product, it is the business organiser or *entrepreneur*. It is he who initiates industrial enterprise by bringing together wage-earners, capitalists and landowners, and it is he who has to plan ahead on estimates of output, sales, costs and prices.

Distribution goes on from day to day throughout the period of production, and must, therefore, be calculated mainly on an *estimate* of the net product. If the latter proves to be more than was anticipated, the *entrepreneur* stands to gain; if the value of the product is less, he may be involved in loss. But, in any event, the net payments for the other agents remain unaltered, since they have been settled in advance by definite contract irrespective of the financial result of the business at the end of the trading period.

QUESTIONS BEARING ON CHAPTER 3

1. What is the ultimate aim of all commercial activity?

2. Explain the nature of " wealth " as it is understood in an economic sense.

3. Distinguish between *free goods* and *economic goods*, and between *material* and *non-material* goods.

4. Which branches of Economics would you expect to be primarily concerned with: (*a*) the hewing of coal; (*b*) the payment of wages; (*c*) the eating of an apple; (*d*) the purchase of a book; and (*e*) a visit to a football match?

5. What do you understand by the National Dividend? Do you consider that this has been increased or decreased in Great Britain in recent years? Give reasons for your answer.

6. What is meant by the phrase " Distribution of the National Dividend "? Who are the people who receive a share of the Dividend?

CHAPTER 4

WANTS AND THEIR SATISFACTION

THE real work of everyone engaged in industry is that of helping to satisfy human wants. In primitive societies, these wants are met by individual enterprise; everyone depends on his own efforts to supply all his needs. But as the world passed through the successive Hunting, Pastoral and Agricultural Stages, each stage was marked by a definite step forward in the material progress of mankind, and, with the spread of civilisation and culture, man's wants constantly increased. To satisfy these wants, co-operation, at first simple in the extreme but later increasingly complex, became essential. The *separation of employments*, when each man confined himself to a particular occupation with a view to getting his living, represented a distinct advance, until finally, with the widespread development of the principle known as the *Division of Labour*, especially in manufacture, the world entered upon the Industrial Revolution and the beginnings of the industrial system as we know it to-day.

The Law of Diminishing Utility.

Though human wants are unlimited, there is a limit to the extent of each want. For obvious physical and psychological reasons, the additional benefit which a person derives from a given increase of his stock of anything diminishes with the growth of the stock that he already has. And this fundamental tendency of human nature, which may be called the *Law of Satiable Wants* or the *Law of Diminishing Utility*, is a most vital factor in determining the extent to which men in general will exert themselves to satisfy any given need.

Demand.

Although human wants are the fundamental cause of all economic activity, they, in themselves, have no power to stimulate the economic machine. Before production is initiated, a want or desire for a commodity must be translated into *demand*. This implies that a person's desire for a thing does not become an economically effective demand unless he has the *means to purchase* what he requires as well as the *willingness to use* that means. Thousands of people may desire to possess a Rolls-Royce car, but Rolls-Royce cars will not be produced in thousands on that account. The desire of most of these people is not an effective demand; they have not the means to pay the price asked. In

Economics, then, "*demand*" means that buyers are prepared to purchase a quantity of a commodity at a certain price.

Elasticity of Demand.

Demand is said to be *elastic* when a slight variation in the prevailing market price causes a marked variation in the demand. If the variation caused by a fall or rise in the price is relatively slight, demand is said to be *inelastic*. Elasticity of demand may thus be defined as "the measure of the responsiveness of demand to changes in price."

The demand for a vital necessary like bread is generally inelastic, because people buy bread in almost the same quantities whatever the price. On the other hand, the demand for butter is elastic, since a small reduction in price results in a great increase in the amount purchased, while an increase in price leads to a marked falling off in demand and to the use of cheaper substitutes, such as margarine.

Broadly speaking, the demand for necessaries of life is inelastic, while the demand for luxuries is elastic; but it must be remembered that what is a luxury to one person may be a necessary to another. A millionaire might find life without a cigar impossible, but a working man may regard any kind of "smoke" other than a clay pipe as an undeniable luxury.

The elasticity of demand varies greatly according to the influence or absence of substitutes. People distribute their expenditure so as to obtain the maximum advantage, or the maximum *satisfaction* of their wants. If butter rises in price, more margarine is consumed. If a housewife finds, on a visit to her butcher, that lamb is dear, she satisfies the needs of her family for meat with beef, or veal, or any other meat which is relatively cheaper to buy. Hence, demand for a commodity for which adequate substitutes exist tends to be elastic, whereas the absence of good substitutes for an article makes the demand for that article inelastic.

The Law of Demand.

The law of demand states that a *rise in the price of a commodity or service is followed by a reduction in demand, and that a fall in price is followed by an increase in demand.* Though this statement may be regarded as being generally true, it is not axiomatic, and various factors may modify its absolute operation. First, there is the fact, to which we have already referred, that the demand for certain commodities, such as bread, varies but little with changes in price.

Secondly, we must recognise that changes in demand may take place quite independently of changes in price; the demand for certain commodities is subject to changes in seasons, fashion custom or popularity. The demand for men's straw hats or "boaters" is very small compared with what it was at one time

but this marked fall in demand had nothing to do with price ; it was merely the result of a change in fashion or taste.

Again, a rise in the price of a commodity may only discourage or retard an increase in the demand for that commodity which is taking place independently of price, and likewise a fall in price may merely encourage or hasten such an increase in demand. The increasing demand for wireless sets was to some extent independent of their fall in price ; it was due partly to the ever-widening popularity of wireless. In like manner, a rise in the price of an article may accelerate a fall in demand which is already taking place on account of the decreasing popularity of the commodity.

We see, therefore, that demand may vary not only because of a change in price, but also because of a *variation in the utility of the commodity* to the consumer. The demand for an article may be greater or less at the same price because the popularity of the article has increased or decreased quite independently of the change in price

Supply.

The supply of a commodity is that *quantity or amount of the commodity which is offered at any particular time, at a given price.* Supply is distinct from the *stock* of a commodity; the latter is only the *potential* supply, and, just as wants become effective demand only when the person in want is willing *and* able to buy, so also a person must not only have a stock of the commodity, but also be willing to sell it, before the stock becomes an *effective* supply.

Elasticity of Supply.

When the supply of a commodity does not change readily with a change in price, it is said to be *inelastic.* If, however, supply can be increased or decreased at will, according to a change in price, it is said to be *elastic.* Generally speaking, the supply of most manufactured goods can be readily adjusted to demand, but supplies of raw materials and agricultural produce can be adjusted only over a period of months or years, although the *effective* supply of such commodities may be regulated to some extent.

Balancing Demand and Supply.

The market price of a commodity is determined by the interaction of demand and supply. If demand increases relative to supply, the price tends to rise ; on the other hand, if demand diminishes as compared with supply, then the price tends to fall, this adjustment being brought about by competition between buyers and buyers on the one hand, and between sellers and sellers on the other. Again, as the price of a commodity falls, demand tends to rise and supply tends to fall. We may illustrate this by compiling what is known as a " combined demand and supply schedule " for a commodity such as butter, which might appear somewhat as follows :—

Combined Demand and Supply Schedule.

SUPPLY IN LBS.	PRICE.	DEMAND IN LBS.
	s. d.	
100	0 6	1000
180	0 10	800
220	1 0	770
340	1 6	720
410	1 8	630
500	2 0	500
550	2 6	430
580	3 0	250
700	4 0	140

If the price of butter is 6*d.* a lb., 100 lb. are offered but 1000 lb. are demanded. Hence, to secure some of this butter, those who urgently want it will begin to offer a higher price, and others, not to be outdone, will follow suit, causing the price to rise. The rise in price brings out increased supplies, and will stop only when the amount demanded equals the amount supplied; that is, according to the table, when the price of butter is 2*s.* a lb. This price *tends* to be the *market price* of butter under the existing conditions.

Market Price and Normal Price.

Market price is the price ruling in the market *at any given moment.* This price may vary from day to day according to changes in either supply or demand or in both. If the commodity is of a perishable nature (as in the case of fresh flowers, vegetables or fish), supply tends to coincide with *the stock* of that commodity, and the market price may be subject to considerable variation. Even non-perishable commodities are subject to day-to-day and seasonal changes in price, and goods which have to be disposed of (*e.g.*, bankrupt stock) may be sold at little or no profit, or even at a loss. Nevertheless, over a period, an equilibrium price can be discerned in respect of each commodity in regular demand, and market price tends to fluctuate above and below this point. This "long-period" price is known as *normal price*, as distinct from *market price*, which is a "short-period" price.

If market price is much higher than cost price, production —and so supply—will be increased until market price falls. Conversely, if market price is lower than cost price, production will be decreased until the reduced supply causes market price to rise again and so induces an increase in production. Cost price is thus a pivot about which market price oscillates, and, over long periods, the normal price about which market price fluctuates will *tend* to equal cost of production.

Cost of Production.

The term "cost of production" refers to the monetary expenditure on such items as labour, material, power, plant and premises which are necessary for the production of an

article. Obviously, in fixing his prices a manufacturer is concerned, not only with the cost of goods already in existence, but also with the anticipated cost of producing new goods, *i.e.*, the cost of *reproduction*.

Total cost of production is made up of *prime* and *supplementary* costs. Prime cost is the specific expense incurred in producing a commodity, without taking into account what are known as establishment charges or "overheads." The cost of raw material and expenditure on wages are both prime costs. Supplementary costs are those which are incurred whether production is taking place or not, and they include such items as rent, interest on capital, depreciation of tools and plant, and insurance. The greater the supplementary cost, the less willing is a manufacturer to cease producing when prices are falling, since, if he can obtain a price only a little higher than prime cost, the margin will help to pay part at least of his supplementary costs.

Real Costs of Production.

Production does not necessarily involve money payments. An isolated man, for instance, would produce to satisfy his needs, but no money payments would be involved. Similarly, in a barter community, no payments would be made in terms of money. Yet in both these forms of production, as in all forms of production, costs are involved. These costs are the *real costs of production*, which the economist defines as *the alternatives displaced or forgone when production takes place.* Factors of production that are used to produce one thing cannot be used to produce anything else. The real cost of production of the thing produced is therefore the other things that might have been produced with the resources employed.

This conception shows that real costs are not something absolute, but are comparative. The real cost of anything is not the absolute physical or mental effort and sacrifice involved, but the other commodities that might have been produced. Great effort might be involved in the production of a commodity, but if the resources employed could not have been used to produce something else, that commodity has no real cost, and no value.

The conception of real costs as displaced alternatives is fundamental and comprehensive. It applies to all factors of production and to all commodities. It shows that the real cost of any project, such as rearmament or war, is not the labour of the workers or the money involved, but the alternative commodities, *e.g.*, the houses, schools and hospitals, that could have been produced.

Marginal Costs of Production.

Marginal costs are the costs of producing that part of the supply which it *just pays* a producer to put on the market.

The aim of the manufacturer is to produce so much of a commodity that the cost of producing what is called the *marginal* unit (*i.e.*, the unit it just pays him to produce) is just covered by the price. Under free competition, normal price thus approximates to the cost of production of the "marginal" producer (*i.e.*, the manufacturer who is just keeping his head above water) or of the marginal unit produced by the *representative* producer (*i.e.*, the manufacturer who is making *ordinary* but not exceptional profits).

Increasing and Decreasing Returns.

It is common knowledge that in many types of business undertaking an enlargement of the scale of operations results in more economical working, *i.e.*, if the amount of capital and/or labour employed in the enterprise is increased, it is found that a more than proportionate increase in output is obtained. It is then said that the enterprise is working under conditions of *Increasing Returns*.

On the other hand, it is sometimes found that the limit of profitable expansion has been passed, and that if the scale of operations were reduced by a withdrawal of part of the resources employed in production the reduction in output would be less than proportionate, *i.e.*, the output per unit of resources employed would be increased. Such a state of affairs indicates the operation of *Decreasing Returns*, and any further extension of output can be achieved only at an increased cost per unit, whereas under Increasing Returns an expansion of output enables costs per unit to be decreased.

If an expansion of the scale of operations causes no variation in the cost of producing each unit, production is said to be operating under *Constant Returns*.

QUESTIONS BEARING ON CHAPTER 4

1. Why is the Law of Satiable Wants of importance in relation to commercial activity?

2. What important economic difference is there between the desire of a penniless tramp for luxuries and that of a wealthy business man?

3. Distinguish between the demand for an important necessary of life such as bread, and the demand for, say, Rolls-Royce cars.

4. What factors determine the price a person is willing to pay for a commodity or service?

5. What effect on the price of petrol would you expect to follow the discovery of a cheap and effective substitute? Give reasons.

6. How is the price of a commodity such as coal determined (*a*) at any given moment; (*b*) in the long run? Assume that there is no control of price or of the marketing process.

7. Assume that for some unexplained reason there arises in three months' time a *greatly* increased demand for (*a*) motor-cars, and (*b*) iron ore. What effects would you expect to see, and why?

8. What are the main factors determining market price?

CHAPTER 5

PRODUCTIVE ORGANISATION

PRODUCTION is that branch of Economics which is concerned with the efforts made by man to satisfy his wants by exploiting to the best advantage the natural resources and products by which he is surrounded. Sometimes the processes of production are extremely simple, but this is the exception rather than the rule nowadays, and the majority of modern productive processes are long, indirect and exceedingly complex.

The Nature of Production.

We know that man cannot create matter. What, then, is the *nature* of production ? Production is defined as the *creation of values*. Man is a producer when he changes the form of existing matter to make it more serviceable or more acceptable so that it is more valuable ; or when he transports an article from a place where it is of little value to a place where it is of greater value, or when he makes a commodity available at a time of the year when supplies of that commodity are most in demand.

Production consists of the creation of—

(1) FORM VALUES, as when timber is converted into chairs ;
(2) PLACE VALUES, when the chairs are conveyed from a factory in London to a village in Hertfordshire ;
(3) TIME VALUES, as, for example, when ice is made available in the summer months.

Timber in the forest has very little economic value, but if it is cut down, transported and made up into chairs and tables, its value becomes measurable in terms of money and of goods, *i.e.*, the timber then commands a *price*. Thus man's part in production consists in the effort or labour he expends upon the resources provided by Nature.

The Four Agents or Factors of Production.

NATURE's contributions to man's wants and to production are fundamental. Without them life would be impossible. Early in the development of society, man applies his labour to subject natural resources to his needs—to obtain food from the soil, the sea and the air, and to make the most of the light and warmth provided by the sun.

LABOUR AND NATURAL RESOURCES are the fundamental

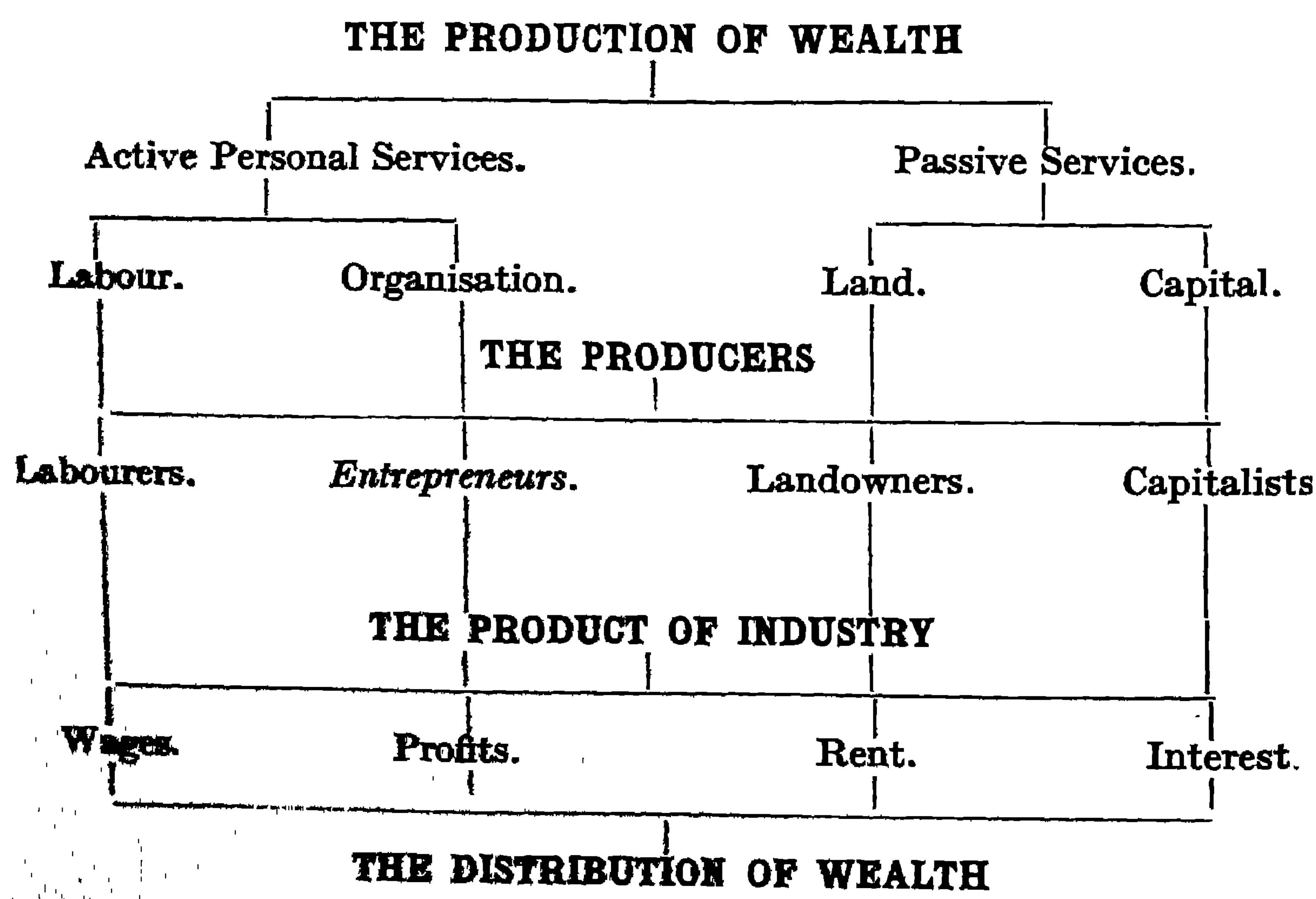
agents of production, but the need for another factor became obvious at a very early stage in economic development. The use of tools, even of an extremely rough kind, added greatly to the quantity and perfection of the product, and, ultimately, few things were produced without appliances or tools of some description. From such elementary beginnings developed the third agent of production, CAPITAL, that part of a man's wealth which he retains and uses to produce further wealth.

ORGANISATION appears as a separate factor in production when man begins to organise the activities of others, and to specialise his abilities as a unit in the modern industrial community. Man now produces for a market and must estimate both demand and supply. Labour, capital and the resources of Nature are brought into a harmonious, productive whole. Their functions are co-ordinated towards putting the product on the market at the lowest possible cost. Such co-ordination in production is the function of the organiser, or *entrepreneur*.

The Agents and their Reward.

Land, labour, capital and organisation are provided respectively by the landowner, the labourer, the capitalist and the organiser or *entrepreneur*, and they receive as their rewards *rent*, *wages*, *interest* and *profit*, respectively. The services of landowner and capitalist are regarded as "*passive* personal services," as distinct from the "*active* personal services" of labour and organisation.

The position may be illustrated in the way shown in the diagram below.



LAND

Land (or the more comprehensive term, *natural resources*, which is sometimes used in this context) includes all those products in their natural state which are the free gifts of Nature, as, for example, minerals, forests, fisheries, winds, heat and natural gases.

Factors of Productivity.

Land, itself, varies in importance and productivity according to (*a*) the accompanying physical and climatic conditions; (*b*) the degree and effectiveness of the human activity to which it is subjected; and (*c*) its accessibility to markets for the commodities produced.

PHYSICAL AND CLIMATIC CONDITIONS include the natural fertility of land, its mineral wealth, its vegetation, its position and the prevailing climate. Much of the soil of India is exceedingly fertile, while its supplies of sunshine and natural heat are abundant; but the productivity of certain parts is negligible because of the absence of rain. A deficiency of this kind may, however, be remedied by the second factor, human activity and enterprise.

HUMAN ACTIVITY covers the efforts of the farmer to improve the soil by cultivation, by the application of natural and artificial manures and by drainage and irrigation. It includes also the activities of manufacturers and of the State itself in assisting the cultivator, financially or otherwise, as, for example, by highly organised measures to modify climatic conditions by planting trees in order to attract rain.

ACCESSIBILITY.—However fertile the land, it will be of little productive value unless its geographical situation makes it *accessible to markets* wherein the produce can be sold. Hence, the ultimate productivity of many areas depends largely on the facilities of transport and communication. The extremely fertile prairies of Canada and the United States of America have been rendered truly productive only through the extension of both railroad and steamboat services, by which the necessary supplies and appliances can be delivered to the cultivators and their produce conveyed to market.

The Cultivation of Land.

Land may be cultivated or farmed either *extensively* or *intensively*. Extensive methods of cultivation are in operation when, as in newly developed countries such as Canada, each cultivator works a relatively large area of land and in this way endeavours to obtain the greatest net return per unit of expenditure. Intensive methods apply in old countries like Holland, China and France, where the available land is limited and is worked carefully and scientifically so as to yield the maximum net return per acre.

The Law of Diminishing Returns.

Whatever method the farmer adopts to subjugate Nature to his wants, he must eventually be brought face to face with the fact that there is an absolute limit to Nature's bounty. Whether intensive or extensive methods are adopted in cultivation or not, they must sooner or later bow to one of the most fundamental laws in Economics—the Law of Diminishing Returns. After a certain stage in cultivation is reached, land fails to respond as lavishly as before to the efforts of man, and, unless new methods of agriculture, new machines, or new fertilisers are forthcoming to counteract the natural tendency of the soil to become exhausted of its properties, it yields a proportionately decreasing return to each additional application of labour and capital.

This universal law which exerts such a profound influence on human activity throughout the world is usually expressed in the following terms:—

> *An increase in the capital and labour applied in the cultivation of land causes* IN GENERAL *a less than proportionate increase in the amount of produce raised, unless it happens to coincide with an improvement in the arts of agriculture.*

Although the effects of the law are felt earlier in the extractive industries, they make themselves evident in the long run in every industry, since human capacity and power to control are not boundless but themselves set a limit to the profitable expansion of vast organisations.

LABOUR

Labour connotes all human effort, of body or of mind, which is directed to the production of wealth. Some economists, notably the Physiocrats, used to distinguish between the labour which produces services, and that which produces material commodities. The former they regarded as *unproductive*, the latter as *productive*. To-day this distinction is of no practical importance, since it is acknowledged that so-called "unproductive" labour may result in services very useful and often indispensable to mankind. Nowadays it is usual to regard as productive *all labour embodied in commodities or services for which people are willing to pay.*

Thus, the function of labour in the economic sense is to create *values*, whether of form, place or time, and among services which are rightly regarded as productive are those of the farmer, miner, baker, transport worker, banker, accountant, professional musician, artist and actor. On the other hand, effort expended in recreation, such as running, rowing or jumping, or in labours of love, such as nursing one's relatives, is not productive labour; because, although such effort is in many cases undoubtedly *indirectly* productive, it is not creative

of value and its result cannot be readily measured in terms of money—the economist's measuring-rod.

Division of Labour or Specialisation.

The Division of Labour is one of the most important aspects of the organisation of industry. It implies the arrangement of labour-power in such a way as to maximise the amount and quality of the output.

In primitive days, there was no organisation of labour-power beyond what was necessary to decide what should be done at different seasons and at different times of the day, or to decide how the work to be done should be apportioned among the various members of the family. In modern complex societies, this primitive organisation is impossible, and considerable specialisation is essential. This specialisation can be carried on almost indefinitely, and to-day we have specialisation not only of traders and of processes but also of part processes.

This specialisation is also applied to localities, *i.e.*, the tendency is for certain districts to become specialised in the production of particular commodities, and, quite frequently, production becomes further specialised in distinct areas of the district. Lancashire as a whole is noted for its cotton manufactures, but certain districts in the county specialise in weaving, others in spinning, some in the manufacture of cotton mill plant, and so on.

Causes of Localisation of Industries.

Accessibility to Raw Materials and Markets was undoubtedly the main cause of the early localisation of industry, but it is an influence of diminishing importance. The development of transport and the spread of communications have now largely overcome the disadvantage of distance. They have enabled raw materials to be transported over great distances at relatively low cost, and have made it possible for the products of regions distant from markets to compete successfully with the products of other regions more favourably situated relatively to the same markets. Moreover, finished products as well as raw materials can be cheaply transported, and, in the result, proximity to markets is no longer an overwhelming advantage. Many industries to-day are localised thousands of miles both from their sources of supply and their chief markets, as, for example, the Lancashire cotton industry.

Accessibility to Power has been probably the most important influence since the Industrial Revolution. Coal, the chief source of power, is heavy and bulky, and it is usually cheaper to take the raw material to the fuel than to take the fuel to the raw material. Hence, there has been a tendency for industries to be established and to thrive on the great coal-fields. Here again, however, the development of electric supply and of

oil power has encouraged the tendency towards the decentralisation of industries and has permitted their establishment in regions remote from coal-fields and railways. A near example of this is the distinct movement of industry from the north of England to the south in recent years.

LOCALISATION ITSELF BRINGS WITH IT CERTAIN ADVANTAGES, of which we can mention only a few of the more obvious. Generations of skilled workmen are brought up to the trade; subsidiary industries spring up in the neighbourhood; transport facilities become specialised to the handling both of the raw materials and the product, while the problems of the industry become of common interest and concern. As a result of these and other factors, once an industry has become localised it tends to remain in the original locality even after the causes of localisation have ceased to be important.

Advantages of Division of Labour.

The general results of Division of Labour are an increase in the output of the product (which is usually of a better quality and is obtained at less cost per unit), together with a great improvement in the economic conditions of the workers.

(1) Dexterity and skill are increased through repetition of the same task.
(2) Time is saved in learning a process and in passing from one process to another.
(3) Machinery is used more extensively and efficiently.
(4) There is increased scope for invention.
(5) Physical strain is reduced.
(6) In certain cases, the mobility of labour is increased; *e.g.*, a skilled boiler maker can find employment in a shipyard or locomotive works.
(7) Localisation of industry creates a local supply of specialised labour.
(8) Skill is saved, *i.e.*, the best workers can be kept all the time on the most difficult work, and it is possible to provide suitable tasks for partially disabled men.

Disadvantages of Division of Labour.

(1) The constant performance of the same task causes the work to become monotonous, and narrows not only the worker's outlook but also his intelligence and his sense of responsibility.
(2) Less training and skill sometimes render labour immobile, and increase the difficulty of finding fresh employment when a berth is once given up.
(3) The growth of the factory system leads to certain social evils, as, for example, overcrowding in towns.
(4) There is an absence of that personal relationship between employer and employed which characterised the skilled crafts of earlier days.

Limits to the Division of Labour.

Extent of the Market.—It is, of course, useless to extend the division of tasks unless the addition to the total output can be marketed. In some cases, however, the market is elastic : a reduction in the cost of production permits of a corresponding reduction in the selling price, and this in turn brings about increased sales.

Nature of the Industry.—In farming, for example, there is a certain amount of scope for specialisation, both of product and of labour, but from the nature of the industry the division of labour is more limited in farming than in, say, machine-tool manufacture.

Problem of Management.—After a point, huge organisations tend to become cumbersome and unwieldy, and it is difficult to find an *entrepreneur* capable of handling the reins effectively. " There is always room at the top " in industry as in other spheres of commercial life.

Nature of the Demand.—Businesses where the consumer requires personal attention cannot be unduly expanded, as, for example, Court dressmakers and hairdressers who cater for an exclusive clientèle.

The Efficiency of Labour.

The efficiency of labour varies considerably between different races and is influenced by a variety of factors of which the following are the most important:—

Peculiarities of Racial Stock and Breeding account for such characteristics as the artistry of Italy and the seamanship of Britain.

General Intelligence, too, is frequently a racial characteristic. Europeans are generally considered to be more intelligent on the average than Africans. Differences in intelligence are extremely marked between workers in different industries, and in different processes of manufacture.

Climate and Physical Conditions are closely related to racial factors. Temperate weather is conducive to hard work, but tropical conditions make strenuous effort both impossible and unnecessary.

Education, whether technical, commercial or general, is necessarily of immense help to the worker who seeks to perform his duties in the most intelligent, speedy and efficient manner.

Moral Qualities and Social Conditions influence the relations between the employer and employed. Where the worker is cheerful and well cared for, the output, as a rule, is not only increased but is also improved.

Food, Clothing and Shelter, provided they are available in the right qualities and quantities, produce a well-fed and well-clothed class of workers and increase their productivity.

REMUNERATION OF THE WORKER.—This influences the personal welfare of the worker, and any increase therein leads usually to an increase in efficiency.

GENERAL WORKING CONDITIONS AND THE NUMBER OF WORKING HOURS affect the productivity of the worker in that they react on his physical as well as his mental well-being.

THE ORGANISATION OF LABOUR is of paramount importance. It involves the allocation to the worker of the tasks for which he is best fitted.

CERTAINTY OF EMPLOYMENT is also important. A long period of unemployment demoralises a man and has a harmful effect on his efficiency as a worker.

CAPITAL

Capital we have defined as that part of wealth which is used to assist in the production of further wealth. Wealth not so used is not capital. Perfumes in a shop ready for sale are capital to the shopkeeper, but not to the lady who buys them for her personal use. Again, potatoes that are retained for seed, machinery used in production, and a motor-car used for business purposes, are all forms of capital.

Capital can be regarded in two different ways: (*a*) as an *agent of production*, quite apart from the question of ownership;—this may be regarded as its *natural* characteristic; and (*b*) as a *source of income* accruing without effort;—this is its *acquired* characteristic.

The Accumulation of Capital.

Capital is the combined result of past labour and of saving. But this saving or "abstinence" does not necessarily imply personal sacrifice, especially in those cases where the income is so large that every want can be satisfied without any fear of exhausting the available funds. By reason of the great inequality in the distribution of wealth, and the fact that a very large part of savings comes from those who could not spend the whole of their incomes, the view is losing ground that abstinence is something "painful"—the deliberate sacrifice of present pleasures for the sake of the future. Economists now prefer the safer term "waiting," and in the accumulation of capital both the *power to save* and the *will to save* are equally important.

The Power to Save.

Before anyone can have the power to save there must be a surplus of production over consumption. Regarded nationally, therefore, the power to save depends on the efficiency of the commerce and industry of a country, which is, in turn, influenced by such factors as climate, mineral wealth, good harbours and transport facilities, and the geographical position. Other im-

portant factors are the efficiency of the banking, credit and financial systems; the efficient co-operation of the factors of production—land, labour and capital; the effective use of machinery, inventions and new processes; and the business habits and moral characteristics of the people.

The Will to Save.

This is a more personal matter, and depends chiefly on individual characteristics, particularly on the various motives which create in man a desire to accumulate wealth, such as foresight, ambition for social and business success, and the desire to avoid expense. Saving is encouraged in a civilised community where law and order are maintained, and where a man can expect to enjoy in the future the results of his efforts and of his postponement of immediate enjoyment. Security from fraud, theft and exaction, whether by the State or by individuals, and the existence of means of safeguarding wealth or of investing it safely, are important influences, which depend largely on good and stable government, on the maintenance of peace and order, on the existence of a stable currency, and on the prevalence of good credit both at home and abroad. Saving is encouraged by the availability of money as a store of value; by the existence of saving and deposit banks; by the development and perfection of organisations such as the Stock Exchange, whereby the investment of capital is facilitated; and by inducements in the form of a high rate of interest.

The Functions of Capital.

Capital assists labour by providing (*a*) Sustenance; (*b*) Appliances; and (*c*) Materials.

THE PROVISION OF SUSTENANCE implies the supply of food, clothes and shelter, necessary to maintain both workers and *entrepreneurs* during the processes of production which, under modern conditions, are frequently involved and lengthy.

THE PROVISION OF APPLIANCES is necessary to make production speedy, accurate and automatic; to relieve the worker of drudgery, fatigue and over-exertion; and to correlate the several productive factors.

THE PROVISION OF MATERIALS.—Capital provides industry with materials of the utmost variety and complexity, including not only raw materials but also semi-manufactured and manufactured articles which comprise the raw materials for yet another stage of manufacture.

The Forms of Capital.

The many types of capital are defined according to the immediate function which they perform or which they are intended to perform.

PRIVATE, SOCIAL AND NATIONAL CAPITAL.—*Private* or *individual* capital is owned or partly owned by an individual

or private association, as distinct from *social* or *public* capital, which belongs to the community generally. A freehold house and a table within it are private capital, whereas a public high-road or the National Gallery are both part of social capital; but all four are part of *national* capital, *i.e.*, the total capital of the nation as a whole, comprising the aggregate of the private capital of its nationals, together with the total of the nation's social or public capital.

MATERIAL AND PERSONAL CAPITAL.—*Material* capital includes all objects in a concrete, tangible form, which can be transferred from one person to another, *e.g.*, a writer's pen, his watch and his typewriter. *Personal* capital comprises an individual's ability, capacity or faculty, as, for instance, a writer's skill or special aptitude for writing short stories or technical books.

Personal capital cannot, of course, be transferred, though its benefits can be transferred; as where the writer provides books for the edification, amusement or instruction of his readers.

TRADE AND CONSUMPTION CAPITAL.—The former refers to commodities actually used in the production of other articles, and therefore includes tools and raw materials. *Consumption* capital, on the other hand, is the term applied to all goods which satisfy wants directly, such as food and clothing.

FIXED AND CIRCULATING CAPITAL.—*Fixed* capital exists in a durable shape and brings in a return according to the length of time during which it is used; its utility is not exhausted by a single use. and it can be used over and over again. Buildings, plant and machinery are forms of fixed capital. *Circulating* capital, on the other hand, fulfils the whole of its office by a single use in the production in which it is engaged. Raw materials and fuel are used once only in the performance of their function in creating further wealth.

SUNK AND FLOATING CAPITAL, OR SPECIALISED AND UNSPECIALISED CAPITAL.—Capital is *sunk* or *specialised* when it is in a form which makes it unsuitable for any other purpose, or when it cannot be changed or recovered, as, for example, capital invested in afforestation or in opening a quarry. Capital is said to be *floating* or free or unspecialised when it can at any time assume a different form. The term covers both raw materials and fuel.

REMUNERATORY AND AUXILIARY CAPITAL.—Remuneratory or wage capital is wealth devoted to the payment of labour. Forms of capital which assist labour in production are *auxiliary* or *instrumental* capital, and include machinery, raw materials, ships and railways.

Both remuneratory and auxiliary capital must, of course, co-operate in production, but the proportion of one to the other varies considerably, according to the nature of the business, the state of invention and the relative cost of capital and labour

Revenue or Lucrative Capital is so described because it yields a money income to its owner.

Loanable Capital exists in such forms as can be lent for productive uses, as, for example, money or credit. Money in itself is not capital, however. It is merely representative thereof. A £1 note cannot be used productively, though it may be exchanged for goods which can be so used.

ORGANISATION

Organisation becomes of increasing importance as civilisation advances, but even in primitive conditions some degree of organisation is necessary. The agents of production can achieve nothing unless they are in effective co-operation.

The Entrepreneur.

The task of co-relating the other three agents of production falls on the *entrepreneur*. He sets them in motion, sees that they work harmoniously and remunerates them adequately. At the same time he endeavours to make a reasonable margin of profit for himself. The *entrepreneur* is responsible for the nature, quality and quantity of the product ; for the purchase of the raw material and for the sale of the finished article ; for the discipline, control and payment of the workers under his direction, and for the general organisation of the business.

He utilises the land for building purposes ; turns his monetary capital into buildings and machinery, tools and raw materials, and organises the labour force to the best advantage. Appliances must be of the most up-to-date types ; their repair and replacement must be constantly supervised, and all machinery must be adequately employed. The efficient direction of the labour force involves a fine adjustment between the number of skilled and unskilled workmen, the correct and equitable allocation of duties, the encouragement of energy and skill, and the elimination of waste labour-power. Then there are arrangements to be made for the marketing and sale of the complete product. This necessitates the institution of advertisement campaigns, the employment of sales managers and travellers, and the fulfilment of orders. The adjustment of the business to meet fluctuations in demand and changes in fashion is a necessary part of the organiser's duties, and calls for special gifts of foresight, judgment and intelligent anticipation of the future, together with a wide knowledge of markets and of market conditions. Of necessity, the successful employment of labour requires a sound judgment of men and ability to lead them.

Further, the *entrepreneur* is responsible for distributing the reward to each of the factors of production : he pays rent to the landlord, interest to the capitalist, wages to the labourers, and retains the profits (if any) for himself.

The Entrepreneur is the Risk Bearer.

The characteristic function of the *entrepreneur* is to bear the risk of enterprise. The functions of organisation and management are really nothing more than specialised forms of labour and could be performed by salaried managers, hired by the *entrepreneur*, but the risk involved in enterprise cannot be delegated to others. This risk must be borne by the *entrepreneur* and can be borne by no one else.

In a one-man business and in a partnership, the two-fold functions of organising and risk-bearing are assumed by the same persons, *i.e.*, by the owner of the business and by the partners in the firm. The position is different, however, in a joint-stock company, where the shareholders supply the capital, but take no part in organisation or in management. Since the shareholders bear the risk of losing their capital, however, they are the true *entrepreneurs.* But they delegate the organisational and managing functions to paid directors who, nominally, work under their control. Theoretically, then, the shareholders are both the risk bearers and the organisers.

QUESTIONS BEARING ON CHAPTER 5

1. Assign a meaning to "production," and then proceed to divide it into its several branches. Justify the use of the attribute "productive" in every case. (*R.S.A., Stage II.*)

2. Classify the agents of production and indicate the nature of the reward which they receive for their efforts.

3. The three prime factors of production are land, labour and capital. Discuss the part played by each in a manufacturing industry.

4. How far and in what manner, in your judgment, does the law of diminishing returns apply in large capital combinations?

5. What do you understand by the Law of Diminishing Returns?

6. Distinguish between productive and unproductive labour, and give examples of work which falls within each category.

7. What main advantages have followed the localisation of industry and the division of labour? Give examples illustrating the growth of these principles in Britain.

8. It is said that the steel workers of the Sheffield district are among the best artisans in the world. Give some adequate explanation of this.

9. "The meaning of the word 'Capital' is not always the same. Its significance is apt to vary with the context." Explain and discuss this statement. (*R.S.A., Stage II.*)

10. Why does capital occupy a position of such great importance in the modern industrial world?

11. Explain the functions of the organiser in modern business. Do you consider that it is reasonable to regard him merely as a highly paid labourer? Give reasons for your answer.

12. What factors limit the application of the principle of the Division of Labour?

CHAPTER 6

BUSINESS OCCUPATIONS

UNDER modern conditions, production is usually an elaborate and invariably a prolonged process. In some instances it may extend over years and absorb the activities of a vast army of workers—miners, engineers, clerks, foremen, packers and transport workers—all contributing their share to the finished product.

All those who are so employed in production belong to one of three broad classes of occupations :—

(1) INDUSTRIAL OCCUPATIONS, which are concerned with the growing, extracting and manufacturing of material goods.
(2) COMMERCIAL OCCUPATIONS, which cover the buying and selling of goods, the bringing of them to the notice of consumers (*i.e.*, advertising), and the services of those who anticipate market conditions and forecast the probable demand for commodities. These are the occupations which link the industrial producer with the consumer of his products.
(3) DIRECT SERVICES, which enable the other occupations to be carried on with ease and security.

INDUSTRIAL OCCUPATIONS

Industrial occupations are either extractive or manufacturing.

EXTRACTIVE INDUSTRIES are concerned with the extraction of raw materials from the earth, sea and air. They are directed mainly to changing the location of commodities which are useful to man, and include such industries as mining, quarrying, forestry, fishing and farming.

MANUFACTURING INDUSTRIES are those which make up the raw materials and semi-manufactured goods into finished products. In this group are building, engineering, road-making, the manufacture of hardware and textiles, together with all other industries which involve changing the form of commodities with the object of making them more acceptable or useful to the consumer.

COMMERCIAL OCCUPATIONS

The commercial occupations are the ones with which we are primarily concerned in this book. They deal with the buying and selling of goods, the exchange of commodities and the distribution of the finished product. In the modern world, this work of distribution is highly complex, but it is roughly divisible into three main branches—(*a*) Trade, (*b*) Transport, and (*c*) Finance, which covers the raising, application and rewarding of capital.

Trade or Distributive Occupations.

In this group are included the functions of those who arrange for the *distribution* of goods amongst those who desire them, and such workers must be distinguished from those who are occupied in actually *transporting* goods from place to place. The distributive group includes commercial travellers, shopkeepers, produce brokers, commission agents, advertising agents and merchants.

Trade, which is that part of Commerce concerned with the actual buying and selling of goods, is of two kinds, *home trade* and *foreign trade*.

Home Trade is the internal trade of a country; that is to say, the trade carried on among the people of the country itself. It may be either *wholesale* or *retail*. The *wholesaler* is the link between the producer and the retailer. He buys and sells in large quantities and depends for his profit mainly on the size of his turnover. The *retailer* is the link between the wholesaler and the public. He greatly facilitates the work of distribution by supplying goods just where they are wanted, and by passing them on to the public in just the form and quantities required.

Foreign Trade is the external trade of a country; that is, the trade of a country with other peoples. Its ultimate object—the satisfaction of human wants—is identical with that of Home Trade, for since there are other countries which have what we want, while we have things which they require, it is obvious that an exchange of goods is of mutual advantage to all concerned.

In this country we do not produce nearly as much food as we consume, and we therefore have to depend upon other countries to provide this for us. In return we provide those countries with many commodities which they urgently require, especially coal and manufactured articles of iron, steel, wool, silk and cotton. These goods not only contribute to the satisfaction of the wants of our overseas customers, but also incidentally help them to produce food and other goods which they send us.

Similar conditions apply in all countries, with the result

that each country engages in that kind of work for which it is best fitted, and there is a kind of territorial or international division of labour.

Transport Industries.

These include all the clerical, mental and manual occupations involved in the operation of rail, sea, road, canal and air transport. They contribute to commerce by enabling goods to be sent just *where* they are wanted, and, what is of almost equal importance, just *when* they are wanted ; for goods that are not at a place where and when they are wanted are of no use to anyone. One has only to consider the state of affairs which prevailed a hundred years ago to appreciate this. At that time, it was only with the greatest difficulty that goods could be moved from one place to another. Transport, whether by land or sea, was slow, costly and hazardous, with the result that many commodities which are now within the reach of quite moderate incomes were then prohibitively expensive, and for the most part, only articles of luxury, small in bulk, were imported. This was true of all countries, so that if the harvests failed in one part of the world, there was always some danger of a disastrous famine no matter how abundant the harvests might be elsewhere.

Nowadays the position is very different. The railway, the steamship, the motor-lorry and the aeroplane permit goods to be moved from one place to another with little expense and with the greatest ease and speed. Transport has closely linked up all regions of the world, and now enables the most widely separated communities to benefit by a mutual exchange of products and services.

Finance : Banking and Insurance.

The services of bankers, underwriters and insurers greatly increase the efficiency of production by adding to the ease and security with which it can be carried on. At the same time and for the same reason, they enable commerce and industry to develop on an extensive scale.

BANKING, together with its associated financial operations, is one of the most important concomitants of modern business activity and certainly one without which modern commerce could neither be carried on nor have achieved its present huge dimensions. Nowadays, many business promoters do not trade with their own capital. They depend rather upon their ability to borrow such funds as they require, and for this they rely upon the services of bankers and financiers.

In this country, the banks provide mainly ***short term*** capital, whereas *long term* capital is obtained either by private treaty or through the medium of the capital market by issues of shares, stock or debentures. But, in addition to providing circulating

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capital both to traders and to industrialists, bankers perform a variety of other services of inestimable utility, as will be explained in a later chapter.

INSURANCE, too, has become vitally important with modern commercial development. Nearly all commercial enterprises are subject to a certain amount of risk, but the prudent business man aims at reducing such risk to a minimum. Provision against insecurity can be effected by means of insurance, whereby a person pays a small *premium* in order to indemnify himself against loss of a much larger amount. The ultimate object of insurance is to provide that the loss, instead of falling upon one person, shall be distributed among many, and, in effect, all who insure in a group with one insurance company make a small contribution towards any loss which may be sustained by any individual member of that group. (See also Chapter 46.)

DIRECT SERVICES AND PUBLIC SERVICES

The third group of occupations comprises the professions of those who render their services direct to the consumer. Among these are the doctor, teacher, lawyer, civil servant, policeman, soldier and sailor. The functions of such people are not directly productive in the sense that they result in the production of some commodity, but they are, nevertheless, quite as important as those of persons engaged in the other categories, since they facilitate and in many cases make possible the work of those in the other groups.

DIAGRAM ILLUSTRATING THE DIVISIONS OF PRODUCTION

- PRODUCTION.
  - **Industry.**
    - **Extractive.**
    - **Manufacturing.**
  - **Commerce.**
    - **Trade.**
      - **Home.**
        - **Wholesale.**
        - **Retail.**
      - **Foreign.**
        - **Import.**
        - **Export.**
    - Auxiliaries to Trade.
      - Transport.
      - Banking.
      - Insurance.
  - **Direct Services.**

QUESTIONS BEARING ON CHAPTER 6

1. What is meant by (*a*) an "extractive industry" and (*b*) "commerce"? (*R.S.A., Stage I.*)

2. Defining business as any occupation of which money gain is the principal object and in which there is a risk of money loss, what classes of workers would you include as business men and what classes would you exclude? (*R.S.A., Stage I.*)

3. Enumerate the several branches of production and give examples of occupations in each. (*R.S.A., Stage II.*)

4. Enumerate the principal divisions of trade and discuss briefly how they are related to one another. Are these divisions always mutually exclusive? (*R.S.A., Stage II.*)

5. Explain carefully the difference between Commerce and Industry; give the principal divisions of the former. (*R.S.A., Stage I.*)

6. What are the various classes of occupation which are described as commercial? Say why they are so described. (*R.S.A., Stage I.*)

7. How are occupations classified? Give a few leading characteristics of each class. (*R.S.A., Stage I.*)

8. "Business itself consists of the production of goods and commodities and of their transportation and exchange." Discuss this statement and relate it to the relevant classification of occupations. (*R.S.A., Stage II.*)

9. Give reasons why the activities embraced by the term "commerce" have become so varied. Enumerate some of these activities. (*R.S.A., Stage I.*)

10. Institute a contrast between Industry and Commerce, and enumerate the several branches into which the latter is usually divided. (*R.S.A., Stage I.*)

11. Explain what you understand to be the object of Commerce. Show how the different commercial activities are interdependent and how they all help in the attainment of the common end. (*R.S.A., Stage I.*)

12. Enumerate the several branches of production; give examples of occupations in each and state what kinds of human activity are not included in your classification. (*R.S.A., Stage II.*)

13. Enumerate the principal occupations which may properly be described as commercial. What do you consider to be their chief common characteristics? (*R.S.A., Stage I.*)

14. What do you understand by "direct service" occupations? Give examples and contrast them with commercial occupations. (*R.S.A., Stage I.*)

15. Enumerate the principal divisions and subdivisions of trade, and give an idea of the relative importance of each. (*R.S.A., Stage I.*)

16. Which do you consider to be the wider term—commerce or trade? Justify your answer by drawing up a table of divisions and subdivisions of each. (*R.S.A., Stage II.*)

PART III

THE COMMERCIAL MACHINE

CHAPTER 7

TYPES OF COMMERCIAL UNDERTAKING

A STUDY of the various types of business units naturally gives rise to an enquiry as to the causes which account for the existence of those different types. Although the actual nature of any industry is important in determining the conditions under which that industry is carried on, it is yet possible to distinguish certain factors which have a marked influence on the general characteristics of industry in any country or community as a whole. For example, such conditions as security and safety from invasion, together with freedom from war or other catastrophe, are favourable to the growth of capital and the extension of enterprise, while they make possible and profitable the specialisation of businesses and the organisation of industry on a large scale. But the most important conditions which give rise to differences as between countries in the types of commercial undertaking are climate, natural resources and environment; the nature and density of the population; and the character of the Government—all of which tend to govern the nature as well as the organisation of the basic industries.

CLIMATE, NATURAL RESOURCES AND ENVIRONMENT.—Climate is an important factor; for productive organisation tends to reach a higher state of efficiency in a temperate country than in a tropical or Arctic region equally endowed so far as other natural resources are concerned.

The natural resources of a country must also be considered. The industries of countries of vast fertile areas and extensive forests will be mainly agricultural, but the presence of available supplies of coal, natural oil, iron and other minerals, or the existence of sources of water-power, are natural factors which favour *industrial* development. Environment, too, is of very great importance. A country surrounded by sea, as is the United Kingdom, is at a distinct advantage for trading purposes (especially for entrepôt trade) compared with a country like Tibet, which is on a high plateau, encircled by even higher ranges of mountains.

THE NATURE AND DENSITY OF THE POPULATION.—However abundant natural resources may be, they cannot be developed unless the population is adequate and efficient. A large population provides a wide market and consequently encourages the development of a complex and extensive productive mechanism. Again, a hard-working and ambitious community will develop its natural resources to the utmost limit, whereas an indolent, unintelligent race may live at ease surrounded by untold mineral wealth which merely waits its profitable development and exploitation.

THE CHARACTER OF THE GOVERNMENT.—Production is assisted by the State in some countries by the provision of transport and communications, the construction of harbours and docks, the maintenance of an efficient legislative and judicial machinery, the dissemination of information concerning home and foreign markets and sources of raw materials, and indirectly by the provision of educational facilities. In less forward countries, no such stimulus for development exists.

INDUSTRIAL ORGANISATION

In some industries the representative business unit is small, while in others the general tendency is towards large-scale enterprise, facts which naturally give rise to an enquiry as to why differences in the size of the typical business unit exist. Why should the representative tailoring business be smaller than the average banking business ? Why, in the *same* industry, do small and large concerns, both apparently successful, exist side by side ?

Broadly, there are two main factors which determine the size of the typical business unit : (*a*) the nature of the industry and (*b*) the nature of the demand.

Factors influencing the Size of a Business Unit.

THE NATURE OF THE INDUSTRY.—In essentially extractive industries such as fishing and farming, a tendency to " diminishing returns " early becomes noticeable, and a limit is soon reached beyond which it becomes unprofitable to sink further capital therein. Therefore, the small production unit is predominant. In manufacturing and constructive industries on the other hand, the economies of large scale production are very great : consequently the typical business unit is likely to be large, as it is, for example, in the cocoa, soap, motor, iron and steel, heavy chemical and other manufacturing industries, of which well-known instances are Cadbury's, Unilever, Morris Motors, Dorman Long and Imperial Chemical Industries.

Another aspect is important. In certain industries, the cost of machinery and other necessary equipment is such that it is impossible to initiate any business except upon a comparatively

large scale. Thus, a clothing factory may, perhaps, be efficiently equipped for about £10,000, whereas £100,000 is scarcely sufficient to furnish a steel-rolling plant with up-to-date and economical equipment.

THE NATURE OF THE DEMAND.—Where demand is steady, and more or less standardised, the organisation designed to satisfy it will tend to be large, and as much as possible of the necessary work will be reduced to routine. If, on the other hand, demand is uncertain and spasmodic, and, to meet it, close attention has to be paid to varying tastes, so that personal supervision of the business is necessary, then the business unit will be small. It is for these reasons that we find giant concerns in the railway, banking and insurance industries, whereas in the millinery and tailoring trades, and in fact in retail trade generally, the small business persists.

Advantages of Large-Scale Production.

A number of most important advantages arise from the organisation of production on a large scale :—

(1) The economies of the division of labour can be secured.
(2) Materials can be economised and by-products utilised.
(3) The most up-to-date and costly machinery can be employed.
(4) Special terms can be obtained when large quantities of raw materials are bought ; similarly transport, insurance and such like charges are proportionately reduced.
(5) Standing expenses such as rent are spread over a large output.
(6) Experiment and research which might be impossible for a small firm can be undertaken where ample capital is available.
(7) Special skill can be employed on those tasks which require it.
(8) Wide market fluctuations can be met more easily.
(9) Greater powers of advertising and publicity can be exerted.
(10) The selling cost per unit decreases as the volume of sales increases.

The advantages of large-scale enterprise can in fact be summed up in the statement that all these factors co-operate *to produce increasing returns.*

Disadvantages of Large-Scale Production.

The disadvantages of large-scale production resolve themselves, of course, into the lack of the advantages of small-scale production, and, compared with the latter, large-scale production has the following disadvantages :—

(1) Personal interest in each product is impossible, as also to a large extent is personal contact with the firm's employees and customers.
(2) The failure of a large concern tends to involve others in loss.
(3) The direction of effort is difficult to change.
(4) Management is concentrated in a few hands, and authority may be abused.
(5) The formation of monopolies is probable.
(6) An elaborate system of checks is essential.
(7) The owners cannot supervise the detailed working of the business, and there is therefore a tendency for red-tape to hinder efficient working. Salaried managers may not show such keenness as is displayed by the owners of a small concern who actually manage it.

Although a large concern tends to suffer from "red-tape," and to become over-departmentalised, at the same time, better schemes of control are introduced, *e.g.*, decentralisation (see p. 99) and budgetary control (see p. 230).

Limits to the Growth of an Undertaking.

The advantages under the modern industrial system appear to be on the side of the large concern, but there are obvious limits beyond which expansion is uneconomic. Of these, the most important arise from the difficulty of efficient management: an organisation may become too great for one man to control. After a point, large scale enterprise tends to become cumbersome and unwieldy; its efficiency decreases as the personal and direct supervision of its parts by the *entrepreneur* diminishes; expenses tend constantly to increase and economies to disappear when the employer is not always present. Eventually, a point is reached beyond which the average cost of production, *i.e.*, the cost of production per unit, begins to increase, and at this point the maximum profitable degree of expansion has been reached. As soon, therefore, as the tendency to diminishing returns is apparent, there is a tendency for independent productive organisations to develop under associated *entrepreneurs*, each of whom is responsible for his unit to a central board of control.

Sole Traders or Producers.

Purely individual businesses may belong to one of two classes: those in which an individual produces independently with his own land, labour and capital; *or* those in which one man directs and bears the risk of a business in which he owns or hires the capital and land, and employs such labour as he requires.

The main advantage of individual enterprise is the greater

personal interest in the business, and the corresponding care for efficiency and economy. The private business is necessarily limited by the fact that a single proprietor has only a limited capital. It is therefore found chiefly in those industries in which the market is local, or taste and fashion are paramount, in which the whims and fancies of customers are a first consideration, or in which quick decisions and intuitive judgment are essential. The small-scale concern also flourishes in speculative activities and in all enterprises where the "personal element" is important. Such factors are responsible for the survival of the private business in the dressmaking trade.

Partnerships.

A partnership is an association of people who carry on business together for the purpose of making profits. It is the simplest and oldest method of extending the size of a business and at the same time of relieving the sole producer of part of the burden. Agreed proportions of capital and labour are contributed by each member and the management and profits of the undertaking are shared according to agreement. In some cases, however, one partner provides all or most of the capital and others contribute labour, with or without some of the capital.

ADVANTAGES OF PARTNERSHIP:

(1) A firm can be formed without expense or legal formality, and can be dissolved in the same way.
(2) The business is extremely mobile and elastic, being almost completely free from legal restrictions on its activities.
(3) There is a union of interest and responsibility.
(4) The legal provision that ordinary partners shall be liable to the full extent of their private fortunes is a distinct safeguard and a deterrent to dangerous speculation.

DISADVANTAGES OF PARTNERSHIP:

(1) The absence of limited liability. This tends to restrict enterprise.
(2) The absence of continuity. The business may come to an end on the death, bankruptcy, or retirement of one partner.
(3) The comparative difficulty of obtaining fresh capital.
(4) The absence of legal regulations, and the fact that there is no publicity in regard to a partnership's affairs, to some extent reduce confidence.

In general, it is true to say that a partnership is a small-scale enterprise compared with a joint-stock company (see below). A small firm has the advantages connected with small-scale operations, and suffers from the attendant disadvantages. But it must be remembered that there are some enormous partnership businesses in existence. Usually, however, when a partnership extends, and the capital of the existing partners is inadequate, it is found preferable to convert the business into a joint-stock company rather than to introduce new partners for the sake of their capital.

Impersonal Businesses.

Impersonal businesses comprise those societies, corporations and companies, which are regarded by law as having a legal existence separate from that of the individuals by which they are constituted, and which have power to contract and transact business in their corporate names. Bodies of this kind are regarded as *legal persons*, or " artificial " persons, and, in the sense that they are unaffected by the death, bankruptcy, or insanity of the individuals who for the time being are in charge of their affairs or constitute their membership, they are perpetual. The necessity for ensuring continuity of succession was, in fact, the primary reason for the creation and recognition of such associations. These artificial persons are called *bodies corporate*, or *corporations*.

Bodies corporate are " corporations sole " when they consist of only one " corporator " or member and they are " *corporations aggregate* " when there are more members than one. The King, a bishop or the vicar of a parish is a corporation sole. Each of these is regarded by law as a legal person having rights and liabilities quite distinct from those of the individual person who for the time being holds the office.

For our present purpose corporations aggregate are of chief importance, and, of these the most common, and at the same time the most important, is the joint-stock company.

Joint-Stock Companies.

The fundamental principle of joint-stock organisation is that the capital of the undertaking is contributed by a body of shareholders, who have only very restricted powers and have no voice in the management of the business. This is committed by the shareholders to an elected board of directors, who exercise their control through general and departmental managers. Clearly, the joint-stock organisation is really an extension of the partnership system, with the necessary limitation in the number of persons who control the concern in the interests of all who have contributed their quota to its capital.

In the early stages of the development of the joint-stock

system of organisation the liability of members was unlimited; the shareholders were jointly liable, like partners, for all debts of the company to the full extent of their individual properties. The limitation of liability by various Acts of Parliament during the latter half of the last century was a decided advance and paved the way for great development in the scope and size of these enterprises. It necessarily reduced the risk of loss so far as the shareholders were concerned. and this, combined with the fact that shares in such companies were easily transferable by means of the wonderful mechanism of the Stock Exchange, greatly encouraged investment by all classes. To-day, joint-stock enterprise is the recognised medium for the supply of capital to trade and industry; and there are now in this country alone over 100,000 joint-stock companies controlling productive undertakings of almost every size and kind.

Advantages of Joint-Stock Organisation.

(1) Larger capital can be accumulated and controlled under one management than would otherwise be possible.

(2) The risk of loss is spread over a large number of investors and the possibility of hardship on a few persons or on one class is thus minimised.

(3) The limitation of liability and the ready transferability of shares encourage investment.

(4) The skill and initiative of the able organiser would be lost to the community if he could not obtain the capital to give them scope.

(5) Large capital enables the size of the business to be extended and permits of the use of expensive machinery, expert knowledge and business ability, and the specialisation of functions. Thus, production is increased and efficiency enhanced.

(6) The separation of the functions of ownership and management is attended by great advantages, as it enables relatively small amounts of capital to be mobilised and employed collectively.

(7) The limited company is specially suitable for enterprises in which a long period must elapse before profits are made.

(8) The organisation is a legal entity with perpetual succession; it may outlive many generations of private producers.

(9) The compulsory publicity and other legal regulation of joint-stock companies are beneficial, particularly with regard to banking and public utility services.

(10) A joint-stock company is dealt with readily by an outsider because he knows the exact scope of its business and the legal limits of its powers.

It must not be thought, however, that all joint-stock com panies are large-scale concerns. Nowadays, thousands of small "family" businesses are conducted as joint-stock undertakings, one reason being that the proprietors are thereby enabled, in some cases, to reduce their income-tax and sur-tax liability, and above all, the benefits of limited liability are enjoyed.

Disadvantages of Joint-Stock Organisation.

There are certain defects peculiar to this type of organisation :—

(1) Joint-stock companies are liable to get into incapable hands, chiefly because of the facility with which the machinery for obtaining capital may be exploited by unscrupulous promoters, and also because it is often difficult to appraise the qualifications and integrity of the directors and managers whose names appear on prospectuses.

(2) There is less individual initiative and personal responsibility. The individual producer can act quickly ; the joint-stock company moves ponderously and only after the agreement of diverse interests. It is always liable to be hampered by disagreement.

(3) The absence of responsibility of the shareholder for work done with his wealth frequently leads to abuse, as, for example, "sweating," unsatisfactory working environment, and the exploitation of women, children and natives. In addition, savings may be wasted or applied unproductively ; but the shareholder has little or no remedy.

(4) The joint-stock company is not so well suited as the private firm or partnership to pioneer enterprise or other highly speculative businesses, such as those which cater for quickly changing fashions or a widely fluctuating demand.

(5) Finally, there is a tendency for large joint-stock organisations to form themselves into combinations or associations exercising monopolistic powers which may react detrimentally to other producers in the same line or to consumers of the commodity produced. This matter is discussed at greater length in Chapter 10.

These disadvantages scarcely apply to the small "family" companies mentioned above.

QUESTIONS BEARING ON CHAPTER 7

1. What are the most important factors which give rise to differences, as between one country and another, in the types of productive organisation which exist therein ?

2. Name six industries which owe their existence to the natural resources of a country. (*L. Ch. of C., Certif.*)

3. Examine the main causes which determine the size of the typical business unit in different industries, and account for the fact that the typical unit in the shipbuilding industry is very large compared, for example, to the typical unit in tailoring or farming or building.

4. In what way do frequent changes of fashion influence the size of the business unit in an industry ?

5. Summarise briefly the main advantages and disadvantages of large-scale production. Are there any limits to the growth in the size of a business ?

6. In what branches of business does the sole trader hold his own, and why ?

7. Why are so many businesses now conducted as (*a*) partnerships; (*b*) limited companies ?

8. Enumerate some of the advantages and disadvantages of the joint-stock form of organisation.

CHAPTER 8

PARTNERSHIP

In this chapter, references, unless otherwise stated, are to sections of the *Partnership Act*, 1890.

PARTNERSHIP is defined by Section I. of the *Partnership Act*, 1890, as "the relation which subsists between persons carrying on a business in common with a view of profit." The persons so associated are "partners" and their total number is limited by Section I. of the *Companies Act*, 1929, to not more than *ten* if the business is that of banking, and to not more than *twenty* in the case of any other business. An association consisting of more than this prescribed number of persons is illegal unless it is registered as a company under the *Companies Act*, 1929, or otherwise incorporated.

Restrictions on the Use of Trading Names.

A partnership is generally known as a "firm," the name under which the business is conducted is called the "firm name," and under this name the partners may sue or be sued in a court of law. The name may be an assumed name, or may consist of the names of all or of some of the partners.

In connection with the question of business names as a whole, the general rule is that any person, firm or company may adopt any name they choose for the purpose of carrying on business. To this rule there are, however, certain exceptions and provisos.

First, no individual, firm or association may adopt for the purposes of trade any name which is already being used by any other person or association for trade purposes if there is any possibility that the use of the name will amount to a deception of the public and thereby allow the new business to profit by the reputation of the existing business. If in London there existed a tailoring business working under the name of Smith, Brown & Company, and two other London tailors named Smith and Brown respectively decided to form a partnership, they could probably be debarred from calling themselves Smith, Brown & Company. On the other hand, if the new firm intended carrying on business as, say, provision merchants, or if their business was to be carried on in, say, Liverpool, there would be no objection to their adopting the name of the existing firm, since there would be no danger of unfair competition.

Secondly, the *Companies Act*, 1929, lays down quite definitely the rule that no company may be incorporated with a name so closely resembling that of an already existing company that there is any likelihood of deception, and this even if the businesses of the companies are quite different from each other. This Act also forbids the use in a company's name of such words as "Royal," "Chartered" or "Imperial" without the permission of the Board of Trade.

Thirdly, there are the provisos attaching to the use by an individual or firm of a name other than that of the principal. These provisos are contained in the *Registration of Business Names Act*, 1916.

Registration of Business Names Act, 1916.

The object of this Act was to make it impossible for an individual to carry on business in any name but his own without disclosing his true name. The following persons and partnerships having a place of business in the United Kingdom are required to register under this Act :—

(1) Every partnership carrying on business under a name which does not consist of the true names of all the partners.
(2) Every individual carrying on business under a name which does not consist of his own surname without any addition other than his own Christian names or initials.
(3) Every individual who has changed his name since the age of eighteen other than by marriage, and not being a peer of the realm; and every partnership of which such an individual is a member.

Registration must be effected with the Registrar of Business Names, London, to whom the following particulars must be furnished :—

(1) The business name, and, where the business is carried on under more than one name, each of such names.
(2) The general nature of the business.
(3) The principal place of business.
(4) The present Christian name and surname; any former names; the nationality, and if that is not the nationality of origin, the nationality of origin; the usual residence and other occupations (if any) of the person desiring registration, or (in the case of a partnership) of each partner; and the corporate name and registered or principal office of every corporation which is a partner.

The Act also lays down that wherever the business name appears in any trade catalogue or circular or business letter, it shall be accompanied by the particulars mentioned in Clause 4 above.

The register kept by the Registrar of Business Names is open to public inspection, and copies may be taken therefrom. The Registrar must be notified of changes in any of the particulars requiring registration, and the Certificate of Registration must be exhibited at the chief office of the business.

If registration is not effected as prescribed, the firm cannot sue on any contract, unless relief is granted by the Court, and further, the members of the firm are liable to heavy penalties.

Classes of Partnerships.

The types of partnership existing now are: (*a*) Ordinary Partnerships, governed by the *Partnership Act*, 1890, and (*b*) Limited Partnerships, governed by the *Partnership Act*, 1890, and the *Limited Partnerships Act*, 1907. Limited partnerships are dealt with at the end of this chapter, and except where otherwise stated, the subject-matter of the earlier parts of the chapter is concerned only with ordinary partnerships, and the term "partner" means a general or ordinary partner under the *Partnership Act*, 1890. The distinction between a general or ordinary partner and a limited partner is important.

The Partnership Agreement.

Although for the purpose of creating a partnership no particular formality is required, it is desirable that the arrangement should be made by deed or other written agreement. This agreement is termed the "*Articles of Partnership.*" A partnership may, however, come into existence like most other contracts by oral agreement or merely in consequence of the conduct of the parties. Articles of Partnership, where they do exist, may be altered at any time with the consent of all the partners. Third parties have no legal right to inspect these articles as they have to inspect the articles of a joint-stock company.

Articles of Partnership usually stipulate how the business is to be conducted, in what proportions the several partners are to contribute to the capital of the firm and how the profits are to be distributed among them. They also define the period over which the partnership is to extend, but if this is not stated or if the specified period is exceeded, the partnership is termed a "*partnership at will,*" and may be terminated at any time. New partners may be admitted with the consent of all the partners, and in such cases the new partner is sometimes required to pay a *premium* (in consideration of the right to share the use of the firm's connection and reputation), which may be returnable in whole or in part if the association comes to an end before the expiration of the time fixed.

In this chapter we shall consider the provisions which govern a partnership in the absence of any express provision in the articles (if any) to the contrary.

The Capital of a Partnership.

The partnership agreement provides what shall be the capital of the firm and how it shall be contributed. The amount may at any time be altered by agreement between the members. No partner may assign his share of the capital without the consent of the other members, and if he allows his share of the capital or profits to be charged by the Court with payment of a debt, his action will entitle the other partners to dissolve the partnership.

The Powers of Partners.

Any person or corporate body having capacity to contract can be a member of, or partner in, a firm, but although an infant can become a partner he cannot be held personally liable on any partnership contract entered into during his infancy (see p. 244).

Every partner is an agent of the firm and his other partners for the purpose of the business of the partnership. He can bind the firm and his co-partners by any act within the scope of the ordinary business of the firm, even though the articles of partnership do not give him power to do so, so long as the person with whom the contract is made deals with the partner as a member of the firm and not as an individual, and is not aware of the absence of authority to bind the firm.

Thus a partner in a *trading* firm has implied power to buy, sell, or pledge goods ordinarily dealt in by the firm, to make and indorse promissory notes, to draw, indorse and accept bills of exchange, to draw, indorse and countermand payment of cheques, and to open an account and borrow money on behalf of the firm. But such a partner is not entitled to bind the firm *by deed* unless he is empowered to do so by power of attorney; neither, in the absence of express authority, can he give a guarantee in the name of the firm (unless it is usual for the firm to give guarantees) nor refer a dispute to arbitration. If they so wish, however, the other partners may subsequently ratify any such unauthorised acts.

A partner in a *non-trading* firm has no implied authority to do any of the acts mentioned above, but a partner in *any* firm has implied authority to sell goods or personal chattels belonging to the firm, to purchase goods needed in the business, to receive the firm's debts and give receipts, and to engage servants and employees.

What Constitutes a Partnership?

It is frequently not easy to determine whether or not a partnership actually exists between persons who are conducting business together. Thus, although participation in the net profits of a business is regarded as strong presumptive evidence of the existence of a partnership, it is not regarded as conclusive.

Section 2 specifically prescribes conditions under which a person may receive a portion of the profits of a business and yet may not be a partner. This is so in the case of a joint-tenant or co-owner of property, or of a person to whom payment of a debt, remuneration, or an annuity is being made out of the profits of a business, or of a person who, by virtue of a contract in writing, receives a proportion of the profits in lieu of interest on a loan he has made to the firm.

The facts of each particular case must be considered before it can be decided whether or not a person is a partner. As a general rule a person will be regarded as a partner if the Court is satisfied that he has conducted himself as a partner, or that the business has been carried on by persons acting upon his behalf.

"Holding-out."

It is possible, on the other hand, for persons so to conduct themselves as to render themselves liable as partners although they take no share of the profits of the business. When persons act in such a way as to lead people to suppose that they are partners in a firm, they are said to be "holding-out" as partners.

A person who lends his name to a business without actually being a partner in it is sometimes described as a "nominal" partner.

Implied Rights of Partners.

Every partner is entitled first and foremost to be dealt with by his co-partners with the utmost good faith in all matters relating to the partnership. No partner may make a secret profit out of the business, but must disclose it to his co-partners. Each partner other than a *limited* partner—see below—is entitled, in the absence of express agreement to the contrary, to take part equally with the other partners in the management of the business and to share equally in any profits or losses arising from the conduct of the partnership business. In addition, all partners are entitled to an indemnity for all payments made or liabilities incurred by them in the ordinary and proper conduct of the business of the partnership. But unless there is express agreement to the contrary, no partner is entitled to any remuneration for the performance of ordinary partnership duties or to any interest on his capital. He has, however, a right to receive interest at 5 per cent. per annum upon any payment or advance made by him to or for the business, in excess of the amount which as a partner he has agreed to subscribe.

Partners also have the right to inspect and to take copies of all partnership books, which must be kept at the principal place of business of the firm. In the absence of agreement to the contrary, no person can be introduced into a firm as a partner

(2) The funds received from the realisation of the joint estate are applied first in payment of the partnership debts.
(3) The proceeds of the realisation of the separate estates are applied first to discharge the debts of the individual partners.
(4) Any surplus from the joint estate is distributed amongst the separate estates in proportion to the respective interest of each partner.
(5) Any surplus from the separate estates is credited to the joint estate.

The death of a partner frequently necessitates the winding up of the partnership business. In such cases the surviving partners have full powers to do all acts necessary for the winding up, and for this purpose can deal with any property or funds belonging to the firm. The deceased's estate is liable for any debts contracted during his lifetime, but it cannot be held liable for debts or obligations incurred after the date of the death, even though the creditor was not aware of the death at the time of contracting with the firm. The representatives of the deceased, on the other hand, have no power to bind the firm or to interfere in its affairs.

Limited Partnerships.

Under the *Limited Partnerships Act*, 1907, provision was made for a new type of association called a Limited Partnership. This type of association may consist of not more than twenty members (ten in the case of a banking business), and the liability of certain of the members can be limited to the amount of capital which they agree to contribute to the firm, provided that there is at least one *general* or *unlimited* partner. That is, there must be one who, as in an ordinary partnership, can be held liable to the full extent of his separate estate for the debts of the partnership.

Complete and up-to-date particulars of all limited partnerships must be registered with the Registrar of Joint-Stock Companies, otherwise such a concern will be regarded as an ordinary partnership in which the liability of each member is unlimited. The fact that a partnership is limited need not, however, be disclosed in the course of its business nor referred to in the firm's name or literature. The public is entitled at any time to inspect the register of limited partnerships kept by the Registrar.

The position of a limited partner differs materially from that of an ordinary partner. A limited partner must not take part in the management of the firm or he will become liable as a general partner for all debts and obligations of the firm contracted while he so takes part in the management. He may,

however, inspect the partnership books and advise upon the state and prospects of the business. During the existence of the partnership he may not draw out or receive back any part of his contribution to the capital of the firm, although he may assign his share if the general partners agree. Neither the death, bankruptcy nor insanity of a limited partner dissolves the partnership, although the lunacy of such a partner will be grou d for dissolution if his share cannot otherwise be ascertained and realised.

Upon dissolution the affairs of a limited partnership are wound up by the general partners, unless the Court orders otherwise. On the bankruptcy of the firm itself, however, or of all the general partners, the assets of the firm vest in the trustee in bankruptcy as in the case of ordinary partnerships.

There are comparatively few limited partnerships in existence, for the formation of a small limited company has been found to be a more convenient method of obtaining limited liability.

QUESTIONS BEARING ON CHAPTER 8

1. What do you understand by the Registration of Trade Names ? In what Act will the regulations be found, and what are the requirements of the Act ? (*C.P.A., Inter.*)

2. A firm of two partners having established a successful business is approached by a third person who is desirous of joining as an additional partner. Discuss the methods and terms on which his admission might be arranged, and refer to the new legal position that it would create. (*R.S.A., Stage III.*)

3. (*a*) With what limitations is a sole trader likely to meet as his business continues to expand ?
   (*b*) Explain how he may overcome these limitations by forming a partnership, and discuss the considerations which ought to influence his decision between an ordinary partnership and a limited partnership. (*R.S.A., Stage III.*)

4. Write a letter to a friend who has asked your advice concerning the clauses he ought to have inserted in a partnership deed to which he is a party. Explain carefully to him why you make these recommendations. (*R.S.A., Stage III.*)

5. Write a brief essay on the Pitfalls of Partnership. (*R.S.A., Stage III.*)

6. What are the fundamental principles of partnership : (*a*) as between the partners and the outside world ; (*b*) as between the partners themselves ? (*R.S.A., Stage III.*)

7. What is the difference between a partnership and a limited partnership ? In what circumstances are special advantages claimed for the latter, and what are these advantages ? (*R.S.A., Stage III.*)

CHAPTER 9

THE JOINT-STOCK COMPANY

In this chapter, references, unless otherwise stated, are to sections of the *Companies Act*, 1929

A JOINT-STOCK company, as its name implies, is a company or association of persons who contribute money to a common stock to be used in a business on the understanding that they shall share in the profits and losses.

Such a company may be formed, or incorporated, in any one of three ways :—

(1) By ROYAL CHARTER, *e.g.*, the Bank of England.
(2) By SPECIAL STATUTE, *e.g.*, British railway companies, the Manchester Ship Canal Company, and most electric lighting, gas, water and tramway companies.
(3) By REGISTRATION UNDER THE COMPANIES ACTS.—This class is by far the most important, and includes companies registered under the various Acts from the original *Joint-Stock Companies Act*, 1869, to the *Companies Act*, 1929, which consolidated and codified the law relating to registered companies.

Registered Companies.

There are three types of registered company :—

(1) UNLIMITED COMPANIES.—In this comparatively rare type of company the liability of each member for the debts of the concern is unlimited, as in ordinary partnerships, but it has an advantage over a partnership in that the liability ceases at the end of one year from the date on which membership is terminated.
(2) COMPANIES LIMITED BY GUARANTEE.—These also are comparatively rare. Each member guarantees to contribute a fixed amount to meet the liabilities of the company so long as he remains a member and for one year afterwards.
(3) COMPANIES LIMITED BY SHARES.—These are by far the most important type, and are dealt with in the following paragraphs. The liability of each member is limited to the amount unpaid on the shares held by him.

Unlimited and *guarantee* companies may or may not have a share capital.

Limited Companies.

Limited companies may be either *public* or *private*. In the case of a public limited company there must be at least seven members, but a private company need have only two. A large company is usually formed by company promoters, who interest the requisite number of persons in the proposed business, take all the measures necessary to bring the corporation into being, and arrange for a public offer of shares to be made, *i.e.*, they invite the public by newspaper advertisements, etc., to apply for shares in the new concern.

A private company is usually initiated by the proprietors of an existing business. It is subject to three important conditions, which must be stipulated in its Articles of Association :—

(1) The right to transfer its shares is restricted.
(2) The number of its members (exclusive of present employees and of past employees who became shareholders when they were so employed and have continued to be shareholders ever since) is limited to fifty.
(3) Any invitation to the public to subscribe to its shares or debentures is prohibited.

It enjoys certain privileges, however, to enable it to keep .ts affairs private (see page 82).

.Iemorandum of Association.

When the requisite number of participants has been obtained, . document known as a " Memorandum of Association " is lrawn up. This must be signed by seven subscribers for a oublic company and two for a private one. The Memorandum f Association sets forth the company's powers and objects and ontrols its external operations ; it is, in fact, the charter of the ompany so far as the outside world is concerned.

The Companies Act, 1929, provides, that in the case of a ompany limited by shares the Memorandum must state :—

(1) The name of the company with " Limited " as the last word in its name ;
(2) The part of Great Britain—whether England or Scotland —in which the registered office of the company is to be situate ;
(3) The objects of the company ;
(4) That the liability of the members is limited ;
(5) The amount of share capital with which the company proposes to be registered and the division thereof into shares of a fixed amount.

At the end of the Memorandum comes the "Association Clause," which is a signed declaration by the persons whose names, addresses and descriptions are given, that they are desirous of being formed into a company. Each of these subscribers is required to write opposite his name the number of shares he will take, and each subscriber must take not less than one share. The signatures must be witnessed.

Name of the Company.

Any name may be adopted, provided it does not too closely resemble that of any existing company or is not so like that of another business as to be calculated to deceive the public, and provided that at the end of the name the word "Limited" appears. The name may be changed only by a special resolution of the shareholders in general meeting, and with the sanction in writing of the Board of Trade.

The Act requires the name to be clearly displayed outside every office or place in which the business is conducted, and to appear on the company's seal, in all notices, advertisements and other official publications of the company, and on all bills of exchange, cheques and notes, orders, invoices and similar documents issued or signed on behalf of the company.

Registered Office.

The Memorandum must state in which country the Registered Office is to be situate, and when stated, this domicile can be changed only with the consent of Parliament. The only alternative for the shareholders is to go into liquidation and form a new company, similar to the old, but with a new domicile.

A company may have any number of places of business, but must, on or before the date on which it commences business or the twenty-eighth day after incorporation (whichever is the earlier), have a Registered Office, the address of which must be notified to the Registrar within twenty-eight days of incorporation. The registered office must be in the country of domicile, which is, as we have said, stated in the Memorandum. Communications may be addressed to the company, and writs and notices served on it at its registered office. The company must give notice to the Registrar of any change in the position of the registered office within twenty-eight days of such change.

Wherever reference is made in this chapter to the filing of documents with the Registrar it should be understood that the Registry for England (or Wales) is at the Companies Registration Office, Bush House, London, and for Scotland at the Edinburgh registry.

Objects Clause.

The third clause of the Memorandum, referred to as the "Objects Clause," is of vital importance. The company can

exist only for the objects detailed in this clause, and any act done by the company or its directors outside the powers therein specified will be *ultra vires* (*i.e.*, beyond the powers of the company) and therefore invalid, even though the consent of every member has been obtained to the specified act. It is, therefore, usual for those promoting a new company to make the objects clause as wide as possible. If this is not done, and the company wishes at any time to extend its powers, the clause can be altered only by special resolution and for very limited purposes. In any case the Court must confirm the alteration.

Limitation of Liability.

The next clause declares that the liability of the members is *limited.* It is this clause that ensures, in the case of a company limited by shares, that no shareholder can be called upon to pay more than the amount remaining unpaid upon his shares; so that if his shares are fully paid up he has no further liability.

Articles of Association.

The Articles of Association of a company consist of a series of regulations governing the conduct of the company's business or the internal management of the company. They form a contract between the company and its members, defining their respective and relative rights and duties. Thus they usually contain regulations concerning such matters as the appointment and powers of directors, the borrowing powers of the directors, shares and share certificates, meetings of the shareholders and directors, voting powers of the members and the method of passing resolutions. The Articles are subject to the Memorandum, and cannot confer or include any powers beyond those contained in the Memorandum.

The Articles must be printed; they must be drawn up in separate paragraphs, numbered consecutively; they must bear a ten-shilling deed stamp; and they must be signed by the subscribers to the Memorandum in the presence of a witness who must attest the signatures. When once completed and registered (see below), they cannot be altered except by special resolution of the company in general meeting, and then, of course, the Articles as altered must not go beyond the Memorandum.

If a company limited by shares does not register special Articles, it will be deemed to have adopted the model form of Articles contained in the first Schedule to the Act, and known as Table A. In any case, where special Articles are registered the provisions of Table A will apply to matters which the special Articles do not deal with, unless Table A is expressly excluded by a statement to that effect in the special Articles which are registered.

SPECIMEN FORM OF MEMORANDUM OF ASSOCIATION

THE COMPANIES ACT, 1929.

Company Limited by Shares.

MEMORANDUM OF ASSOCIATION.

OF

THE PARENT TRADING COMPANY LIMITED.

1. The name of the company is "THE PARENT TRADING COMPANY LIMITED."
2. The registered office of the Company will be situate in England.
3. The objects for which the Company is established are :—

(a) To acquire and take over as a going concern the business and all or any part of the assets and liabilities of the firm of Robinson and Brown, of 74 King Street, Hull, and with a view thereto, to adopt the agreement referred to in Clause 3 of the Company's Articles of Association, and to carry the same into effect with or without modification.

(b) To carry on business as importers, merchants and manufacturers of soaps, candles and all kinds of oleaginous substances, fats, greases and perfumes, and to buy, sell, manufacture and deal in commodities of all kinds which can conveniently be dealt in by the Company in connection with any of its objects.

(c) To carry on any other business, whether manufacturing or otherwise, which may seem to the Company capable of being conveniently carried on in connection with any of the above specific objects, or calculated to enhance the value of or render profitable any of the Company's property or rights.

(d) To acquire and undertake all or any part of the business, property and liability of any person, firm or company carrying on business which the Company is authorised to carry on, or possessed of property suitable for the purposes of this Company.

(e) To enter into partnership or into any arrangement for sharing profits, union of interest, reciprocal concessions, or co-operation with any person or company carrying on or about to carry on any business which this Company is authorised to carry on, or any business or transaction capable of being conducted so as to benefit this Company, and to acquire and hold shares of stock in or securities of, and to subsidise or assist any such company, and to sell, hold or otherwise deal with such shares or securities.

(f) To borrow or raise and secure the payment of money in such manner as the Company shall think fit, and in particular by the issue of debentures or debenture stock, perpetual or otherwise, charged upon all or any of the Company's property, including its uncalled capital, and to purchase, redeem or pay off any such securities.

(g) To draw, make, accept, indorse, discount, execute and issue bills of exchange, promissory notes, bills of lading, warrants, debentures and other negotiable or transferable instruments.

(h) To sell the undertaking of the Company, or any part thereof, for such consideration as the Company may think fit, and in particular wholly or partly for shares, debenture, debenture stock or securities of any other company, and to accept and take any such shares, stock, debentures or securities in satisfaction of any money payable to, or any claim of, the Company.

(i) To do all such things as are incidental or conducive to the attainment of any of the above-mentioned objects.

4. The Liability of the members is limited.
5. The capital of the Company is £2,000,000, divided into 4,000,000 shares of 10s. each.

We, the several persons whose names and addresses are subscribed, are desirous of being formed into a Company in pursuance of this Memorandum of Association, and we respectively agree to take the number of shares in the capital of the Company set opposite to our respective names.

Names, Addresses and Descriptions of Subscribers.	Number of Shares taken by each Subscriber.
George Olney, 4 Brixton Road, Hull, Architect .	One
Claude Hamilton, Westview, Scarborough, Independent	One
Henry Dobbs, 72 William Street, Hull, Merchant .	One
Robert Hill, 349 Liverpool Street, Hull, Merchant .	One
John Smith, 14 The Parade, Grimsby, Clerk . .	One
Frank Harrison, Merton, Upton Terrace, Liverpool, Solicitor	One
Charles Perry, 132 Broad Street, Birmingham, Estate Agent	One

Dated this 1st day of January 19 .

Witness to all the above Signatures—

WILLIAM BROWN,
Cornhill Buildings,
Luton. Solicitor.

Registration.

This is effected by forwarding duly stamped copies of the Memorandum and Articles (if any), together with the necessary registration fees, to the Registrar of Joint-Stock Companies. Certain other documents must also be sent, *viz.* :—

(1) A list of persons who have consented to become directors ;
(2) The written consent of such directors to act ;
(3) A statutory declaration that the requirements of the Act have been complied with ; and
(4) A statement of the nominal capital.
(5) In some cases, a written undertaking by the directors to take up their qualification shares, or a statutory declaration that such shares are already registered in their names.

On registration various fees are payable. First, the Memorandum and Articles each require a 10*s*. deed stamp. Secondly, each document registered requires a fee stamp of 5*s*., except the Memorandum, which is stamped *ad valorem* according to the amount of the capital. Thirdly, the statement of nominal capital bears capital duty at the rate of 10*s*. per cent.

Certificate of Incorporation.

When the Registrar has received all the necessary documents he issues a Certificate of Incorporation, which is conclusive evidence of the registration of the company and of compliance

with all the necessary formalities. The company cannot be regarded as having come into legal existence until this certificate is issued. Consequently, any person making important contracts with a company—as, for example, by advancing it money—should not only be satisfied that the Certificate of Incorporation exists, but should also insist upon inspecting it If such a certificate has not been issued, any contracts—including loans of money—made with a supposed company are void and of no legal effect, so that no action thereon can be taken against the company even if subsequently it becomes registered and obtains a Certificate of Incorporation.

No. 23796.

CERTIFICATE OF INCORPORATION.

I hereby Certify that *The Parent Trading Company, Limited*, is this day Incorporated under the Companies Act, 1929, and that the Company is Limited.

Given under my hand at London this *first* day of *January*, One thousand nine hundred and ....

Robert Timins,
Registrar of Joint-Stock Companies.

Any person dealing with the company after the issue of the certificate is deemed to have notice of the contents of its Memorandum and Articles, which may be inspected by anyone upon payment of a small fee. Members of the company can demand copies of the Memorandum and Articles at a fee not exceeding one shilling.

Certificate to Commence Business.

A *public* company having a share capital cannot exercise borrowing powers or commence business until it has complied with the following requirements of the Act :—

(1) A prospectus, or, if no prospectus has been issued, then a statement in lieu thereof, must have been filed with the Registrar of Joint-Stock Companies.

(2) If a prospectus has been issued, shares payable in cash must have been allotted to the amount of the minimum subscription. (The minimum subscription is the amount named in the prospectus as being required to enable the company to pay the debts incurred in connection with its formation and to provide working capital.)

(3) Each director must have paid on each share that he is liable to pay for in cash the same amount as members of the public must pay on application and allotment.

(4) The secretary or a director must file a statutory declara-

tion that the aforesaid conditions have been complied with.

If the Registrar is satisfied that these provisions have been complied with he issues a Certificate entitling the company to commence business. This certificate is usually called a Trading Certificate, upon receipt of which—but not before—the company is entitled to commence business and to carry out the objects for which it was incorporated. The following is a specimen of this certificate :—

No. 11029.

CERTIFICATE UNDER S. 94 (3) OF THE COMPANIES ACT, 1929, THAT A COMPANY IS ENTITLED TO COMMENCE BUSINESS.

I HEREBY CERTIFY that *The Parent Trading Company, Limited*, of *46 Hill Street, Luton*, which was incorporated under the Companies Act, 1929, on the *first* day of *January, 1930*, and which has this day filed a statutory declaration in the prescribed form that the conditions of Section 94 (3) have been complied with, is entitled to commence business.

Given under my hand at London this *4th* day of *March*, one thousand nine hundred and thirty.

Robert Timins,
Registrar of Joint-Stock Companies.

It will be seen that the difference between the Certificate of Incorporation and the Certificate to Commence Business is that the former recognises the company as a legal entity or *persona*, but, until the latter certificate is issued, a public company having a share capital is merely a legal entity *without power to act*. Any contracts entered into by a public company with a share capital before the issue of this certificate are provisional only, and do not become binding on the company until the certificate is issued, when they *automatically* become binding.

A private company or a public company *not* having a share capital does not require a certificate to commence business. It may begin operations as soon as it has received a Certificate of Incorporation from the Registrar.

Membership.

A person may become a member of a company either by subscribing to its Memorandum or by having his name put on the company's register of members in consequence of—

(1) Having subscribed for any of its shares offered to the public ; *or*

(2) Having purchased shares from a former member; *or*
(3) Having become entitled to shares through the death of a member.

By Section 95 of the Act, every company is required to keep a Register of Members, containing particulars of the names, addresses and occupations of all the shareholders and the shares held by each, indicated by distinctive numbers. Every company with a membership of more than fifty must keep an *index* of members, unless the register is itself in the form of an index. The register and index must be kept at the registered office of the company and must be open to inspection by any member without payment, or by a non-member on payment of not more than one shilling. Copies may be obtained by members and non-members.

Annual Return.

Once in every year, companies having a share capital must forward to the Registrar of Companies a *return* showing who are members of the company and setting forth certain particulars of the company's share capital and of its indebtedness in respect of mortgages and charges. Except in the case of a *private* company, this return must be accompanied by an audited copy of the last balance sheet. A private company must, however, include a statement showing that it has complied with those provisions of the Act specifically affecting private companies.

Classes of Capital.

The capital of a limited company is classified as follows :—

(1) Nominal or Authorised Capital is the total nominal value of *the shares* which a company is authorised by its memorandum to issue.
(2) Subscribed or Issued Capital is the nominal value of the shares actually issued.
(3) Called-up Capital is the total amount called up on the shares issued.
(4) Paid-up Capital is the amount actually received, or credited as received, from members. This amount, plus unpaid calls (or calls in arrear) will equal the called-up capital.
(5) Uncalled Capital is that part of the issued capital which has not yet been called up.
(6) Reserve Capital is any part of the uncalled capital which by special resolution has been declared incapable of being called up except on a winding up.
(7) Unissued Capital is the nominal value of the shares not yet allotted to members. Issued Capital plus Unissued Capital will equal the Nominal or Authorised Capital.

Classes of Shares.

The nominal capital is divided into shares which may be classified as follows :—

(1) Preference Shares.—These must be paid a fixed dividend out of profits before any dividend is paid on the ordinary shares. Unless it is particularly specified to the contrary, preference shares are deemed to be "cumulative," *i.e.*, a deficiency in the dividend in any one year must be made up in subsequent years. Preference shares have no prior claim to repayment of capital, unless the articles so provide.

(2) Ordinary Shares.—These are entitled to such dividend as may be declared by the company in general meeting, on the recommendation of the directors.

(3) Deferred or Founders' Shares.—Such shares are often issued to vendors or promoters as fully or partly paid up, in lieu of purchase money or in return for services rendered in the flotation of the company. The rights attaching to such shares depend on the Memorandum or Articles; usually they take a large proportion of the profits after payment of a fixed rate on the ordinary shares.

(4) Redeemable Preference Shares.—These may be issued subject to certain statutory conditions provided they are authorised by the Articles.

ssue of Capital.

When a company wishes to raise money from the public by :he issue of shares or debentures, it usually issues a prospectus. A prospectus is defined as "*any prospectus, notice, circular, advertisement or other invitation, offering to the public for sub-cription or purchase any shares or debentures of the company.*" Every prospectus must contain certain statutory information or the guidance of the investing public, must be dated, and a opy signed by the directors must be filed with the Registrar efore issue.

)ffers for Sale.

When a new issue of shares or debentures is being made, : is sometimes the practice to allot the whole of the issue to ı "issuing house," which then offers the shares to the public y means of an *offer for sale*. Nowadays, by virtue of the *Companies Act*, 1929, *an offer for sale is deemed to be a prospectus* ıd must contain the same particulars and make the same sclosures as a prospectus, except that the offer is signed by e person making it instead of by the directors of the company. ı addition, particulars of the consideration received by the

company in respect of the issue must be included, as well as a statement of the time and place at which the relevant contract can be inspected.

Allotments.

When an allotment of shares has been made the company must, within one month thereafter, file with the Registrar a *return of allotments* stating the number and nominal amount of the shares allotted, the names, addresses and descriptions of the allottees, and the amount, if any, paid or due and payable on each share. *Where shares are allotted otherwise than for cash, e.g.*, to promoters in payment for their services or to the vendors as part payment for the business, a contract in writing constituting the allottee's title, together with any contract of sale, or for services, must also be filed.

SHARE CERTIFICATE.

The Parent Trading Company, Limited.

Incorporated under the Companies Act, 1929.

Certificate No. *264.* **No. of Shares** *400.*

CAPITAL . . £2,000,000.

Divided into 4,000,000 Shares of 10*s*. each.

THIS IS TO CERTIFY that *Arthur Jones, Esq.*, of *2 The Crescent, Deal*, is the Registered Proprietor of *Four Hundred* Fully paid-up Shares of 10*s*. Sterling each, Nos. *101* to *500* inclusive, in The Parent Company, Limited, subject to the Articles of Association and Regulations of the Company.

Given under the Common Seal of the Company, this 2nd day of February, 1930.

Seal of the Company

John Brown, *William J. Rees*, Directors.
Henry S. Booth, Secretary.

NOTE.—No Transfer of any of the Shares comprised in this Certificate will be registered until the Certificate is deposited at the Company's Office.

Transfer and Transmission of Shares.

The amount which each member must ultimately pay by virtue of his holding in a company is described as his "share capital." Each member receives a "share certificate," setting forth particulars of his holding, and also receives such dividends as may be paid from time to time by the company in accordance with its Memorandum and Articles. Shares may be freely *transferred*, subject to any restrictions contained in the Articles. The transfer must be effected by an instrument in writing—by deed if the Articles so prescribe, and the person to whom shares are transferred is called a "transferee." Upon registration of the transfer in the company's books the transferee becomes a shareholder, and is entitled to a certificate as evidence of his holding. If a shareholder transfers only a part of his holding, two new certificates must be issued to replace the old certificate.

Transmission of shares, as distinct from transfer, takes place when the holder dies or becomes bankrupt. The shares immediately vest in the holder's representative, *i.e.*, the executor or administrator, or the trustee. The representative of the deceased shareholder can demand to have his name entered on the register as owner of the deceased's shares, upon production to the company of proof of his status.

Calls on Shares.

If, as is usual, only part of the nominal value of each share has been paid in cash or money's worth on application and allotment, the directors have the right, subject to the Articles, to call up the amount unpaid at any time in accordance with the Articles. Directors must take all reasonable steps to enforce payment of calls, and, if necessary, must sue for any arrears due from shareholders.

It is usually provided in the Articles that if a shareholder has made default in the payment of a call, the directors may declare his shares "forfeited." But forfeiture of shares is permissible only if provision therefor is made by the Articles; shares so forfeited become the property of the company and may be sold.

Dividends on Shares.

Dividends have been defined as the profit of trading divided among the shareholders in proportion to their shares. The manner, proportion and payment of such dividends are fixed by the Memorandum and the Articles. Dividends must not be paid out of capital. If they are so paid, the directors become personally liable to the company to make good the amount, but they may recover from any shareholder who has received a dividend knowing that it was paid out of capital.

Dividends are usually recommended by the directors and

declared by the shareholders in general meeting, but the directors often have power to declare *interim* dividends themselves, without further authority from the shareholders; and the Articles *may* empower the directors to declare any dividend they please, as and when they please.

Dividends on registered or inscribed securities are paid by sending "*dividend warrants*" drawn by the company on its bankers entitling the persons named thereon to payment of the amount stated, which is the dividend after deduction of income tax.

Provision for the payment of dividends or interest on bearer securities (such as share warrants) is made by means of a sheet of "*coupons*," each of which entitles the holder to payment of the dividend or interest for the year or half-year specified thereon, as the case may be. The issuing body informs the security holders by public advertisement of the amount (in the case of dividends) and the place of payment, in order that the holders may obtain payment by presenting the coupons. When a sheet of coupons is exhausted, the holder of the security may obtain a fresh supply by presenting to the issuers a printed slip known as a "*talon*," which is attached to the security for that purpose.

Stock and Share Warrants.

If the Articles so provide, *fully paid* shares may be converted into stock. Stock differs from shares in that the shares cannot be transferred in fractions, whereas stock may be transferred in any amount subject to the provisions of the Articles.

The greater convenience of transfer of stock as compared with shares, added to the fact that the former is free of the complicated and heavy clerical work entailed by the distinctive numbers carried by shares, makes stock a rather more convenient form of security. For this reason there has in recent years been a growing tendency for joint-stock companies to convert their shares into stock.

When shares of a *public* company *limited by shares* are fully paid up, the directors may, if the Articles permit, issue share warrants under the common seal, declaring the bearer of the warrants to be entitled to the shares specified therein; the shares are then transferable by mere delivery of the share warrant. The warrants thus issued must be re-converted into shares on request.

Debentures.

A debenture is a document, under the company's seal, which provides for the payment of a principal sum and interest thereon at regular intervals, which is usually secured by a charge on the company's property or undertaking, and which acknowledges a loan to the company. Companies frequently resort to the issue

of debentures in order to borrow money for the purpose of their business. Debentures, which must be stamped *ad valorem*, are often issued in series which rank *pari passu*—*i.e.*, in the same proportion and simultaneously—against the company's property.

A debenture bears a fixed rate of interest and is either repayable within a specified period or irredeemable during the existence of the company. Debentures are called "*mortgage debentures*" when they give a charge upon all or part of the company's assets, and are to be distinguished from those which are a mere promise to repay, unsecured by any charge. These are called "*naked debentures*."

Debentures may also be classified as :—

(1) Debentures Payable to a Registered Holder, with or without interest coupons payable to bearer. Transfers of registered debentures must be in writing (usually under seal), and must be registered with the company.

(2) Debentures Payable to Bearer Simply, with or without power for the bearer to be registered as holder. Debentures to bearer have been held to be negotiable instruments, and are transferable by simple delivery.

Debenture Stock.

Debentures can be issued in the form of *stock* which is transferable in any amount, including fractions of a pound. A debenture bond, however, is of a fixed amount, *e.g.*, £100.

Fixed and Floating Charges.

Debentures issued in a series are usually secured by a separate trust deed which sets forth the nature of the charge and vests in trustees the right to take possession of the company's property in case of default in payment of interest.

The charge created may be either *fixed* or *floating*. A "floating charge" is one which allows the company to deal with any of its assets in the ordinary course of business until the charge *crystallises* (*i.e.*, becomes fixed). This occurs if a winding-up order is made, or if the money becomes repayable in accordance with the terms of the debentures, *e.g.*, by default in payment of interest, and the debenture holders take steps to realise their security, as by getting a receiver appointed.

A "fixed charge" is expressed to cover *specific property* of the company. Hence it affects the title to such property, and the company's right to deal with it is subject to the prior rights created by the charge.

Debenture Trust Deeds.

Where a series of debentures is issued it is usual for the company to execute a trust deed, appointing trustees for the debenture holders and laying down the conditions of the issue.

The trustees are appointed to safeguard the interests of the debenture holders, to protect the property which is charged to them, and to see that the terms of the issue are fulfilled.

The advantages of having a trust deed are: (*a*) as the deed transfers the assets to the trustees, the company is not in a

MORTGAGE DEBENTURE TO BEARER.

The Parent Trading Company,
LIMITED.

Incorporated under the Companies Act, 1929.

No. 96 £200

Registered Office : *46 Hill Street, Luton.*

Issue of £200,000 First Mortgage Debentures to Bearer
In 2000 Debentures of £100 each

CARRYING INTEREST AT THE RATE OF SIX PER CENT. PER ANNUM.

DEBENTURE.

1. THE PARENT TRADING COMPANY LIMITED (hereinafter called "the Company") will, on the 1st day of December 19 , or on such earlier day as the principal Moneys hereby secured become payable in accordance with the conditions endorsed hereon, pay to the Bearer on presentation of this Debenture the sum of Two Hundred Pounds.
2. The Company will, in the meantime, pay interest thereon at the rate of 6 per cent. per annum, by equal half-yearly payments on every 1st day of June and 1st day of December, in accordance with Coupons annexed hereto.
3. The Company doth hereby, as beneficial owner, charge with such payment all its present and future capital stock, including uncalled capital, goods, chattels and effects, and all its real and leasehold property and interest in lands; and also all its book and other debts, goodwill, rights and assets, and generally all the present and future property, real and personal, and undertakings of the Company, including its uncalled capital for the time being, all of which premises of every kind above specified are intended to be included in the term "property," wherever used herein.
4. This Debenture is issued subject to and with the benefit of the Conditions endorsed hereon, which are to be deemed part of it.

Given under the Common Seal of the Company, the *4th* day of July *19*____.

SEAL OF THE COMPANY

John Brown, } DIRECTORS.
William J. Rees, }

Henry S. Booth, SECRETARY.

(The Conditions relating to the Security appear on the back.)

position to prejudice the security of the debenture holders by giving a prior charge; (*b*) the deed provides that the company shall be entitled to remain in possession of the assets and also empowers the trustees to sell or exchange any such assets if requested to do so by the company; (*c*) the trustees are empowered, if necessary, to enforce the security by the sale of the assets charged or by the appointment of a receiver; (*d*) the trustees are in a better position than would be an individual debenture holder to take such steps as are necessary to safeguard the interests of the debenture holders, *e.g.*, to see that the premises are kept in repair and insured.

Registration of Mortgages and Charges.

A company must keep at its registered office a register of all mortgages and charges affecting its property.

Certain charges require registration also with the Registrar of Companies, in which cases particulars thereof must be delivered to the Registrar within twenty-one days of the creation of the charge, otherwise it may become void. It is the duty of the company to effect registration and to supply the necessary particulars; but any person interested may register. A person taking a mortgage or charge should protect himself by registering his security if the company does not, and he is entitled to recover from the company any fees paid.

As debentures are usually secured by a mortgage or charge over the company's property, they must usually be registered with the Registrar, as well as in the register kept by the company.

By Section 266 a floating charge created within six months before winding up is invalid (except as to any cash paid to the company at or after the creation of the charge and interest at 5 per cent. per annum thereon), unless it is proved that the company was solvent immediately after the creation of the charge.

Receivers for Debenture Holders.

When a company defaults in payment of interest or principal on its debentures the holders usually have power to appoint a Receiver to take possession of the company's property and to receive its income on behalf of the debenture holders. Sometimes it is necessary for the Receiver to be appointed by the Court, in which case he is an officer of the Court; but when he is appointed by the debenture holders it is usually provided that he shall be an agent of the company, which is liable for his actions.

The appointment of a Receiver must be notified to the Registrar of Companies, and the fact of his appointment must be noted on the company's stationery.

Sometimes a Receiver is appointed also as Manager of the company's business.

Debentures and Shares.

The following are the chief points of difference between shares and debentures :—

Debentures.	Shares.
Debentures are not part of the capital of a company.	Shares are part of the capital.
Debentures rank first for capital and interest.	Shares are postponed to the claims of debenture holders and other creditors.
Debenture interest must be paid whether there are profits or not.	Dividends on shares are payable out of profits only.
Debentures are usually secured by a charge on the company's assets.	Shares cannot carry a charge.
Debenture holders are creditors and *not* members of the company, and usually have no control over it.	Shareholders are members of the company and have control over its management.

Registered and Bearer Securities.

The advisability or otherwise of issuing debentures as registered or as bearer securities, or of converting registered shares into bearer warrants, has often to be considered. Whilst the registered security involves less danger from loss or theft, it cannot be so easily negotiated, for certain formalities attach to each transfer. Bearer securities, on the other hand, are transferred by mere delivery, and this feature is of special advantage in international transactions. As regards stamp duty, the bearer security has the advantage that, although on issue it is subject to a high rate of duty, the duty is paid once and for all. From the point of view of the issuing body the bearer security is most convenient, since it does away with the need for the registration of transfers and the drawing up of dividend lists.

MANAGEMENT OF A COMPANY

The management of a company is vested in persons known as "directors," which term includes any persons occupying the position of directors by whatever name called.

The number, powers and method of election of the directors are fixed by the Articles. Every public company registered after the commencement of the *Companies Act*, 1929, must have at least two directors. No person can be a director of a public company with a share capital unless he complies with certain provisions set forth in the Act, and a list of all persons who have

consented to act as the directors of a company must be filed with its Memorandum and Articles.

A director need not be a shareholder, but the Articles usually prescribe a share qualification, for otherwise the London Stock Exchange will not grant a quotation for the shares. Table A (the specimen form of Articles of Association included in the first schedule of the Companies Act) fixes one share as the qualification, but this rule can, of course, be excluded.

Directors may become liable for wrongful acts committed by them in their capacity as directors, and, in regard to false statements in the prospectus in particular they may be held liable at common law or under Section 37 for any damage suffered by a person who took shares on the faith of the prospectus; but the Act provides certain statutory defences to such an action.

If it is permitted by the Articles, the directors may delegate any of their powers to a committee even of one member, but they still retain full power over the committee.

General Meetings.

The general meetings of a company include :—

(1) *Ordinary General Meetings*, which are compulsory, and comprise—
   (*a*) The First or Statutory General Meeting; and
   (*b*) The Annual General Meeting.

(2) *Extraordinary General Meetings.*

The first or statutory general meeting of a company must be held not less than one month nor more than three months after the date at which the company becomes entitled to commence business. This meeting is called for the purpose of acquainting the members with the financial position of the company at the commencement of business, and it *need not* be held by a *private* company.

To facilitate the transaction of the business of the meeting, a *Statutory Report* must be sent to every member of the company at least seven days before the date of the meeting. This report must disclose the total number of shares allotted, distinguishing between those issued for cash and those issued as fully or partly paid up otherwise than for cash, and stating the consideration for which the shares have been allotted; the total cash received from each of these two sources; a statement of receipts and payments up to a date within seven days of the report; particulars of the balance of cash in hand and an estimate of preliminary expenses; the names, addresses, and descriptions of the directors, auditors, secretary, and managers; and particulars of contracts to be modified at the meeting. The report must be signed by two directors, and, so far as it relates

to shares allotted, to cash received in respect thereof, and to receipts and payments on capital account, it must also be *certified by the company's auditors.*

An *annual general meeting* must be held once at least every calendar year and not more than fifteen months after the previous one. At this meeting the directors must lay before the shareholders their report and an audited balance sheet and a profit and loss account. In addition, dividends are declared, and directors and auditors are elected.

Although the general business of the company is conducted by its directors, certain business must be sanctioned by resolution of the company. For this purpose an extraordinary meeting may be called either by the directors or by the members. Thus, the holders of at least one-tenth of such paid-up share capital as carries voting rights, or, if there is no share capital, members who represent at least one-tenth of the total voting rights, may requisition a meeting. If the directors fail to call the meeting within twenty-one days, requisitionists representing more than one-half of the total voting rights of all the requisitionists may do so.

Resolutions.

The types of resolutions are three in number, *viz.* :—

(1) An Ordinary Resolution, requiring a simple majority of members voting.

(2) An Extraordinary Resolution, which must be passed by a majority of not less than three-fourths of the members entitled to vote, and voting either in person or by proxy, where proxies are allowed, at a general meeting of which notice specifying the intention to propose the resolution as an extraordinary resolution has been duly given.

(3) A Special Resolution, which is one passed by such a majority as is required for the passing of an extraordinary resolution and at a general meeting of which not less than twenty-one days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given.

ACCOUNTS AND AUDIT

Section 122 requires every company to keep proper books of account covering—

(1) All sums of money received and expended by the company, and the matters in respect of which the receipt and expenditure take place ;

(2) All sales and purchases of goods by the company ; and

(3) The assets and liabilities of the company.

The books of account must be kept at the registered office of the company (or at such other more suitable place as the directors think fit), and must at all times be open to inspection by the directors.

Auditors.

The Act provides that every company must appoint one or more auditors for the purpose of examining its books and accounts, and reporting on their correctness or otherwise to the shareholders.

The first auditors may be appointed by the directors before the first annual general meeting. They hold office until the first annual general meeting, unless previously removed by a resolution of the shareholders in general meeting, in which case the shareholders at that meeting may appoint new auditors. Auditors must be appointed by the company at each subsequent annual general meeting to hold office until the next annual meeting; if the company fails to make the appointment, the Board of Trade may do so upon the application of any share holder.

Every auditor is entitled to examine the company's books, accounts and vouchers, and to call for any necessary information and explanations from the directors and other officers. The auditors must make a report to the shareholders on the accounts examined, and on every balance sheet laid before a general meeting during their tenure of office, stating—

(1) Whether they have obtained all the information and explanations they have required; and
(2) Whether, in their opinion, the balance sheet referred to in the report shows the true state of the company's affairs, according to the best of their information and the explanations given to them and as shown by the company's books.

Auditors are entitled to attend any general meeting at which any accounts audited by them are to be laid before the company, and to make any statements or explanation concerning them.

Statutory Books.

A company must keep the following statutory books in addition to books of account :—

(1) Register of members, including a copy of each annual return.
(2) Register of directors or managers.
(3) Register of mortgages and charges
(4) Minute books.

PRIVATE COMPANIES

A private company has certain privileges not enjoyed by a public company, as follows :—

(1) Only two members are necessary to enable the company to carry on business ;
(2) The annual return need not include a balance sheet ;
(3) Members have no legal right to inspect the balance sheets and reports unless they ask for them and pay for them at a rate which is not to exceed sixpence for every 100 words.
(4) No statutory report need be filed, nor need a statutory meeting be held ;
(5) No statement in lieu of prospectus need be filed ;
(6) The directors may act without having filed their consent or signed the Memorandum or a contract for their qualification shares ;
(7) It may proceed to allotment and commence business as soon as it is incorporated, without restriction.

Conversion from Private to Public Company.

If a private company alters its articles in such a manner that they no longer include the provisions which must be included in the articles of a private company, it automatically ceases to be a private company, and within fourteen days after such alteration of its articles the company must file with the Registrar a prospectus or a statement in lieu thereof in a form prescribed in the Act.

TERMINATION OF A COMPANY

A company may come to end in the following ways :—

(1) By voluntary winding up ;
(2) By voluntary winding up subject to the supervision of the Court ;
(3) By winding up by the Court ;
(4) By having its name struck off the register by the Registrar ; or
(5) By order of the Court without winding up.

Voluntary Liquidation.

Voluntary liquidation is initiated by a resolution of the company itself. The Court does not of its own motion interfere with the conduct of the liquidation. A company may be wound up voluntarily in the following circumstances :—

(1) When the period (if any) fixed by the articles for the duration of the company has expired, or when the

event (if any) has occurred upon the occurrence of which the articles provide that the company shall be dissolved, and the company in general meeting has passed an ordinary resolution requiring the company to be wound up ; *or*

(2) When the company has passed a special resolution requiring the company to be wound up voluntarily ; *or*

(3) When the company has passed an extraordinary resolution to the effect that the company cannot carry on business owing to its liabilities, and that it is advisable to wind up.

A voluntary liquidation may be either a *members'* or a *creditors'* affair. A *members'* liquidation is left in the hands of the shareholders, whereas a *creditors'* liquidation is subject to the control of the creditors. A voluntary liquidation will always be a " creditors' " liquidation, unless a majority of the directors make a statutory declaration that the company is solvent and will be able to pay all debts in full within twelve months.

Winding Up under Supervision of the Court.

When a company is in course of being wound up voluntarily and a petition for compulsory winding up is presented, the Court may in a proper case direct that the voluntary winding up shall proceed subject to its supervision. The liquidator appointed by the company continues in office unless removed by the Court, and his powers are the same as in a voluntary liquidation, subject to any direction given by the Court.

Compulsory Winding Up.

A company may be compulsorily wound up by the Court—

(1) Whenever it passes a special resolution to that effect ;
(2) If default is made in filing the statutory report or in holding the statutory meeting ;
(3) If it does not commence business within a year from its incorporation, or suspends business for a year ;
(4) When it is unable to pay its debts ;
(5) When the number of its members falls below seven, or below two in the case of a private company ;
(6) When the Court is of opinion that it is just and equitable that the company should be wound up.

triking off the Register.

Reference has been made to the fact that a company may e struck off the register by the Registrar. This may take place nly when the Registrar has reasonable grounds for believing hat the company is defunct. In such a case he gives due notice the company at its registered office of his intention to strike off the register, and if, after the lapse of the requisite period,

he hears nothing to the contrary, he proceeds to remove its name.

Dissolution by Order of the Court.

The Act provides for the speedy dissolution of a company whose business has been acquired by another company. In such circumstances the Court may decree the dissolution of the transferor company without the intervention of the usually protracted proceedings incidental to winding up.

Trading with less than Requisite Number of Members.

Where a company carries on business with less than seven members (two in the case of a private company) for more than six months, every member who is cognisant of the fact becomes personally liable for any debts of the company which were contracted after the six months.

Building Societies, Friendly, Industrial and Provident Societies.

These bodies are joint-stock enterprises, but they are registered under special Acts: *i.e.*, the Building Societies Acts, 1874–1939; the Friendly Societies Act, 1896, and the Industrial and Provident Societies Act, 1893. For this reason they are not companies and are not subject to the provision of the Companies Act, 1929, despite the fact that the liability of members may be limited. They make returns to Registrars appointed by the various Acts, *e.g.*, the Registrar of Friendly Societies and the Registrar of Building Societies, who exercise a similar control to that exercised by the Registrar of Joint-Stock corporations.

Registration under the Industrial and Provident Societies Acts was often adopted as a device to avoid compliance with the provisions of the Companies Act regarding prospectuses and accounts. By the Prevention of Fraud (Investments) Act, 1939, however, registration under these Acts is now confined to co-operative societies, societies intended to promote the welfare or improved living conditions of the working classes, or otherwise to benefit the community, and thrift associations. *Any* society may be registered under the Act if it is formed for the purpose of carrying on any industries, business, or trades specified in or authorised by its rules, whether wholesale or retail, and including dealings of any description with land.

Registration under these Acts has the advantage, as compared with registration under the Companies Act, that the statutory regulations are in general somewhat less onerous. On the other hand, the restriction that no single shareholding shall exceed £200 renders this form of registration unsuitable for many types of concern.

As in the case of a public registered company, a registered society must consist of at least seven persons, and if the number of members falls below that number the society may be wound

up by the Court. The word " limited " must be the last word in the name of a registered society.

The main privilege enjoyed by a registered society is its freedom from liability for income tax (though, of course, its members are liable in respect of the income they derive from the society). Against this there is the disadvantage that its investments are practically restricted to trustee securities, though it may (if authorised by its rules) lend to its members against security. The rules, it should be noticed, have to be registered with, and approved by, the Registrar of Friendly Societies, and take the place of a registered company's Memorandum and Articles.

Another disadvantage of this method of incorporation is the strict requirement as to auditing. Under Section 2 of the 1913 Act, every registered Society must submit its accounts each year to one or more of the Public Auditors appointed under the 1893 Act. The Auditor must not hold any other office in connection with the society. In addition, an Annual Return must be submitted each year for the inspection of the Registrar, and every three years a special return of membership and shareholdings must be made.

Building Societies.

Of the group of societies mentioned in the preceding paragraph, the building society is of most importance.

A building society may be defined as an association of persons formed with the object of subscribing funds or raising capital out of which advances may be made to members of the society for the purchase of houses or similar property. The society takes from the borrowing member a mortgage over the property as security for the advance, and charges the member interest at an agreed rate during the period of the loan.

Building Societies are of two types—Terminating Societies and Permanent Societies. A *Terminating Society* is formed for a fixed period of years, and new members may join by paying arrears of subscriptions. Such societies suffer from the fact that there is no continuity of existence, so that when the period of the society expires, it is necessary to transfer the funds to a new society if the association is to continue.

Owing to the defects in this type of organisation the more modern societies have been formed as *Permanent Societies.* In this society the system has been developed of soliciting investments from members of the public who seek a reasonably safe and remunerative placement for their surplus funds.

Building Society Legislation.

The first important Act passed in relation to Building Societies was that of 1874, which provided for the registration and incorporation of building societies, with power to hold land

with the right of foreclosure and power to execute deeds by the affixing of the corporate seal. Later, the *Building Societies Act*, 1894, was passed. This Act provided for a statutory form of accounts, and subjected the societies to a more stringent audit. The Act also imposed a strict examination and classification of the mortgage assets, while it prohibited the practice of balloting for advances. The Act of 1939 imposed restrictions to control the making of advances on collateral security (*i.e.*, security additional to the freehold or leasehold property) and generally to protect the interests of the borrower.

Under the Building Societies Acts, any three persons may form themselves into a society by lodging with the Registrar of Friendly Societies two copies of the rules of the society signed by the persons concerned and by the secretary. The society is managed by a committee of management or directors, a secretary, and auditors, acting under the supervision of the members. The rules of the society must state the manner in which its funds are to be raised and the terms of withdrawal.

Capital and Deposits.

The society's share capital is divided into shares of fixed amount, which may be purchased (1) by periodical subscriptions; or (2) by a single deposit, which accumulates at compound interest, or (3) by payment of a lump sum. In the event of winding-up, the shareholder is liable only to the extent of the amount for which he is then in arrears, and he can withdraw his capital at any time on giving due notice. The shareholder receives interest at a specified rate, which is generally augmented by a bonus out of surplus profits.

Preference Shares, carrying a charge on the assets of the society, ranking prior to ordinary shares, and usually receiving interest at a lower rate, may be issued to the extent provided for in the rules.

The Deposits accepted by a building society from the public are, in effect, loans to the society and, in accordance with the Act of 1874, the society must not accept deposits beyond the following limits:—

(*a*) Permanent Societies.—The total indebtedness of the society by way of deposit or loan must not exceed two-thirds of the amount secured to the society by mortgage from its members.

(*b*) Terminating Societies.—The total outstanding may be either two-thirds as stated above, or a sum not exceeding twelve months' subscriptions on the shares for the time being in force.

In calculating the "amount secured to the Society by its members," all amounts secured on properties either (*a*) where the payments were a year in arrear, or (*b*) where the society had

been a year in possession at the date of the society's last account, are to be disregarded.

Deposits must be subject to at least one month's notice of withdrawal, and rank for repayment before shares. The rate of interest is from one-half to one per cent. lower than that paid on shares, and usually increases with the length of notice required for withdrawal of the funds.

Advances.

By Section 13 of the *Building Societies Act*, 1894, a building society is formed " for the purpose of raising by the subscriptions of the members a stock or fund for making advances to members out of the funds of the society upon security of freehold, copyhold, or leasehold estate by way of mortgage." Except for the surplus funds which may be invested in trustee securities, the whole of the funds are, therefore, intended to be employed in this way. Except in the case of certain societies in Scotland and Ireland, the securities which may be taken by a society are limited by the Act to first mortgages (*i.e.*, second mortgages are debarred). The society can, however, increase the amount of a loan on any property on which it already holds a first mortgage.

The effect of this provision is to confine the advances of a society to the best class of security. Societies also exhibit a marked tendency to advance loans to owner-occupiers in preference to purchasers for investment. A building society may lend more than its normal advance if additional or collateral security is given, and provided the regulations of the 1939 Act are fulfilled.

Two methods are commonly adopted for the repayment of loans. The first is the " annuity " system, by which the loan and interest are repaid by equal periodical payments. In the second, or " open account " system, the borrower covenants to repay a fixed proportion of the loan during each year by annual, half-yearly, quarterly, or monthly payments, and the interest is debited periodically to his account, calculated on the balance which he owes. If the payment is three months in arrear, the society can appoint a receiver who will collect the rents, and if payment is four months in arrear, the society can sell the property or lease it.

Chartered and Statutory Companies.

The grant of a *Royal Charter* to a company is the oldest form of incorporation known to English Law. To-day it is chiefly employed in the incorporation of non-commercial undertakings, *e.g.*, the Chartered Institute of Secretaries, but it has been used in the past as a mode of creating commercial corporations. In most cases of incorporation by Royal Charter the company is one which is regarded as being of national import-

ance; that is, its objects, if properly pursued, are considered to be of benefit to the nation as a whole, as well as to the members. Examples of such chartered companies are the East India Co., the British South Africa Co., and the Hudson Bay Co., all of which were formed to open up certain parts of the Empire. Two other outstanding examples are the Bank of England and the Royal Mail Steam Packet Co., and it will be observed that, although the members have the benefit of limited liability, the term "limited" does not appear as part of the company's title.

These companies are common law corporations, and their rights are co-extensive with those of an individual: that is, they may do anything an individual can do, and, if the Charter contains any restrictions on such rights, the restrictions are legally inoperative, though the Charter may be revoked if the restrictions are ignored.

The second type of company, the *Statutory Company*, is of more recent origin, having first come into common use in the early years of the last century for the incorporation of canal companies and railway companies. This is the only satisfactory means of incorporating companies to carry out undertakings of a public character (*e.g.*, railways, water works, and gas works), usually requiring extensive rights (*e.g.*, as to compulsory acquisition of land), which are unknown to common law. Also, as a rule, it is necessary to grant such companies monopoly powers, and, in consequence, it becomes necessary to protect the consumer. This protection is afforded by restrictions incorporated in the special Act by which the company is brought into being.

These companies are governed by their special Acts, and also by a number of general statutes, known as *Clauses Acts*, which contain general provisions (applicable to all such companies), which would otherwise have to appear in all the special Acts. Like chartered companies, the statutory companies do not include the term "limited" in their titles, though their members are liable only to the extent of their capital contributions.

QUESTIONS BEARING ON CHAPTER 9

1. What advantages and disadvantages accrue to: (*a*) a sole trader who forms his business into a private limited company; (*b*) a public company which takes power to issue debentures? (*R.S.A., Stage III.*)

2. X, Y and Z are in partnership and possess a flourishing business. They contemplate taking A into the firm, and ask your advice as to the desirability of converting the business into a private limited company. Write your reply, and give your reasons for your decision. (*R.S.A., Stage III.*)

3. Distinguish between a limited partner and a general partner, and discuss the points of resemblance and of difference between a limited partnership and a limited company. (*R.S.A., Stage III.*)

4. What is a "debenture"? How does the position of a debenture holder in a company differ from the position of a preference or an ordinary shareholder? (*R.S.A., Stage III.*)

5. Discuss the principle of limited liability in relation to: (*a*) the general economic interests of the country; (*b*) the interests of firms constituted as limited liability companies. (*R.S.A., Stage III.*)

6. How are dividends paid on "bearer" securities, and what records should be kept of such payments? (*I.C.A., Inter.*)

7. Define the following denominations of capital in relation to a company: Nominal, Subscribed, Issued, Authorised, Called-up, Paid-up, Share, Unissued, Fixed, Floating, Uncalled, Working. (*S.A.A., Inter.*)

8. A limited company with a paid-up capital of five hundred thousand pounds requires more capital on account of increasing business. You are asked to point out the relative advantages of an issue of debentures or shares. (*S.A.A., Final.*)

9. What is uncalled capital? Explain its objects and advantages. (*S.A.A., Inter.*)

10. A public company has a favourable opportunity of extending its operations, but for this purpose needs additional capital. What alternative courses are open to it for raising this, and what are the respective advantages or disadvantages of each? (*C.I.I. Fellowship.*)

11. Explain the particular features and privileges of a private limited company as compared with public limited companies. In what circumstances is such a company to be preferred to a partnership? (*R.S.A., Stage III.*)

12. What documents have to be filed with the Registrar of Joint-Stock Companies before registration can be effected, in the case of—

(*a*) A private company;
(*b*) A public company?
(*C.P.A., Inter.*)

13. A debenture bond to bearer has coupons attached. Explain how these coupons are treated as they become due and the procedure when the last coupon is detached from the coupon sheet. (*C.A.A., Inter.*)

14. What are the statutory books of a limited liability company? (*C.P.A., Inter.*)

15. Define "extraordinary resolution," "special resolution," "extraordinary general meeting." (*C.P.A., Inter.*)

16. What is the difference between the Memorandum of Association and the Articles of Association of a limited company? (*A.I.C.A., Inter.*)

17. A company issued 100,000 shares of £1 each, with 12*s*. 6*d*. per share called up. What is the term applied to the remaining 7*s*. 6*d*. per share? (*A.I.C.A., Inter.*)

18. Explain the difference between a limited partnership and a private limited company. (*London Chamber of Commerce, Higher.*)

19. In what respects does a society registered under the Industrial and Provident Societies Acts differ from a company registered under the Companies Act, 1929? (*S.A.A., Inter.*)

20. If you were purchasing shares in a limited company what would you or your agent expect to receive in exchange for payment? (*C.A., Inter.*)

21. Contrast, as regards financial organisation, businesses conducted by (*a*) private limited companies, (*b*) partnerships, (*c*) sole traders. (*R.S.A., Stage III.*)

22. Discuss the circumstances under which a limited company constitutes the most desirable form of organisation for a business firm, and state the chief differences between a public and a private limited company. (*R.S.A., Stage III.*)

23. State the principal differences between "stock" and "shares." (*C.P.A., Inter.*)

24. How does a firm differ in its constitution, its capital and the liability of its members from a limited company? (*London Chamber of Commerce.*)

CHAPTER 10

COMBINATIONS AND ASSOCIATIONS

THE development of large-scale production under modern industrial conditions has given rise to and fostered the growth of combinations and associations of producers. It must not be imagined that the independent trading entity has thereby been ousted; on the contrary, the total number of individual traders, partnerships and companies still continues to grow. There is, nevertheless, a strong tendency towards amalgamation and association between the existing trading entities. And on the side of the workers there has been a parallel growth of Trade Unionism largely to meet the increased power of the employers—a subject which is further pursued in Chapter 51.

What is a Monopoly?

The term "monopoly" is ordinarily used to refer to any effective control, natural or artificial, either of the supply or of the demand for services or goods. Effective monopolies of demand are very exceptional, and, as a rule, the term "monopoly" is applied to mean a monopoly of *supply*, *i.e.*, a consolidation of control over the whole or the greater part of the *supply* of some commodity or service, by means of a combination of industrial or commercial units.

Absolute monopolies, *i.e.*, a complete control of demand or of supply, are very rare, and monopoly is considered to exist where one concern or organisation has control over all but a minor part of the total output. The nearest approach to an absolute monopoly is to be found in the case of *legal* monopolies of patented and copyright articles, and *social* monopolies of such commodities as gas, water and electricity supplies, and the postal services. In this country, for instance, the Government has a complete monopoly of postal services; no one else may undertake to accept letters for transmission and delivery. In many towns one gas company has the sole right to make gas and supply it to the district.

The monopoly granted to the Post Office or to a gas, electric light or water company is a type of social monopoly which is justified by the nature of the service rendered. Such monopolies are safeguarded and maintained for the sake of economy and convenience. It would obviously be wasteful for several gas

companies each to supply one village with gas, or for a number of postmen to compete with one another. The economy in the laying of gas-mains, in the first case, and the saving of man-power, in the second, clearly justify the existence of monopolistic organisation. Legal monopolies, again, are essential if invention is to be encouraged. Quite obviously, no man would spend years of labour in perfecting a device, or in writing a book, if, as soon as the result of his work was made public, everyone was entitled to use it as his own. It is not necessary to enquire into the objects or functions of these types of monopolies; they are just as much a part of the social machinery of a civilised country as are the Judicature and the Police Force.

The third and most modern type is the *artificial* monopoly, which is created by the formation of mammoth concerns which absorb their competitors or force them out of business by sheer financial strength.

A fourth type of monopoly is the *geographical* monopoly, which arises out of the existence of a sole source of supply of some form of natural wealth. Chile has a virtual monopoly in the supply of nitrates, but even here synthetic nitrates have largely destroyed any natural advantages once possessed by that country. Geographical monopolies differ from artificial monopolies in that they are natural and not man-made, but they facilitate the formation of artificial monopolies since these latter are more easily contrived when all the producers are in one place than when they are scattered.

Artificial Monopolies.

By controlling the whole or the greater part of the supply of a particular class of goods, an association is able to produce and market just that quantity of the commodity which will yield the greatest profit.

The monopolist endeavours to *estimate* what is likely to be his profit on the production and sale of a given quantity of goods, and he concentrates on the production and marketing of that quantity which he estimates will yield the greatest aggregate net profit.

It is clear that although he can control production he cannot change the conditions of demand. He can either fix his output and leave it to the market to adjust the price at which his goods will be taken up, or he can fix his price and leave it to the market to determine what quantity he will be able to sell. He cannot fix *both* his price and his output.

Monopolies of Demand.

Monopolies on the demand side are not so common as are those of supply. Usually the two go together, that is to say, monopolies of demand usually spring from monopolies of supply. But in order to constitute an *effective* monopoly of demand, it

is necessary to gather into an association the majority of those who have any use for the commodity in question. An example of such a monopoly is the huge combine known as Unilever Ltd., which controls the greater part of the demand for those vegetable oils and animal fats which are used in the manufacture of soap and margarine. Such a monopoly benefits from the fact that it is able to offer more or less its own price for these particular commodities. Here again, however, there is a limit to the control, for if the prices are forced down too far, suppliers will themselves be forced to combine or to seek some other business, and this alternative, by cutting off part of the necessary supply, will ultimately force up prices to a remunerative level.

FORMS OF PRODUCERS' ASSOCIATIONS

The object of an association of producers is to increase the profits of the members by means of economies either in production or in distribution, but the manner in which this object is attained depends upon the nature of the association. In all cases, however, the purpose is to reap the benefits arising out of large-scale production by such methods as: (*a*) the dissemination of technical and commercial information; (*b*) the establishment of research bureaux; (*c*) the standardisation of products and, consequently, the simplification of processes; and (*d*) the improvement of marketing technique.

Such trade combinations are of many kinds, but, very broadly, they fall into two main classes, according to whether they achieve their objective of greater profit by increasing prices, or reducing costs by improved methods of production. The former type requires an effective control of output and production, and may take the form of a *ring* or *kartell.* The latter type, which usually takes the form of an *amalgamation*, requires a much closer fusion of the various component units to secure productive and allied economies. In this latter case, where the demand for the products is very elastic, the objective of higher profits may even be secured by *reduced* prices.

Amalgamations.

The term "amalgamation" implies an absolute welding together of enterprises. Two forms of this type of combination may be discerned, the so-called *trust* and the *complete fusion.*

TRUSTS.—The trust originated in the United States in the formation of the famous Standard Oil Company. Controlling blocks of shares in a number of competing businesses were transferred to a body of trustees, who operated all the constituent companies of the trust according to an agreed policy. This form of combination was declared illegal as being opposed to the public interest, but the term "trust" continued to persist and is to-day applied to groups of firms which secure unification

of working by such devices as the *holding company*, or the *interlocking directorate*.

The modern *holding company* obtains a controlling interest, by the purchase of all shares or of enough shares to give control in each of its *subsidiary companies*, and, by appointing its nominees to the boards of the subsidiaries, it is able to determine their policies. Arrangements between the subsidiaries can thus be made to restrict output, divide markets, standardise products, etc. The anti-social effects of such an arrangement arise from the danger of the control of an industry by a few men. Moreover, promoters may reap large profits by watering the capital while detrimentally affecting the business through over-capitalising it. A combine with a capital of £20,000,000, for example, may be formed to take over a number of firms for which the promoters paid only £10,000,000. The difference of £10,000,000 is the " water " in the capital and represents the profit of the promoters. The combine is heavily over-capitalised because the value of the assets with which it has to earn profits is only £10,000,000, yet it will be expected, by the shareholders, to pay a reasonable dividend on a capital of £20,000,000. In order to pay dividends on such a large capital, the directors may starve the reserve funds of the combine.

Under the system of *interlocking directorates*, the various units remain under separate control, but community of interests is achieved by the exchange of directors between the different firms. Such a method is not very stable, and depends on the degree of general agreement between the respective directorates.

THE COMPLETE FUSION.—This may take place by an exchange of shares between the companies concerned (known as a *merger* or *consolidation*), or by an outright purchase by the absorbing company of a complete or controlling interest in the other constituent companies with, ultimately, a complete loss of the independence of the constituent companies. The advantage peculiar to this form of combine is the elimination of wasteful duplication of plants. It involves larger financial resources and a greater degree of skill in management, while the commercial risks tend to become greater. The danger of such a fusion is that once the spur of competition is removed, initiative tends to be replaced by red tape and bureaucracy.

Vertical and Horizontal Combinations.

VERTICAL COMBINATIONS link up all the *different* stages of production from the raw material to the finished product, but only in rare cases do they assume monopolistic tendencies. Well-known examples of this type of combination are provided by Dorman Long and Co. Ltd., an engineering firm which also controls coal, iron and limestone supplies, and Bovril Ltd., which not only owns vast cattle ranches in Argentina and Australia, but also markets its own finished products.

Horizontal Combinations are combinations of firms engaged in the *same* stage of production. The usual object of horizontal combination is to check cut-throat competition or to force up prices, and this type of association usually aims at partial or, if possible, complete monopoly. The Imperial Tobacco Company is a horizontal combination, having been formed by a number of independent producers of tobacco and cigarettes. Other examples are the Drapery Trust Ltd.—a fusion of several previously independent retail drapery stores—and the Lancashire Cotton Corporation Ltd.—an amalgamation of Lancashire spinning mills designed to lower costs of production by the concentration of production and the elimination of weak units.

Combinations may be either vertical or horizontal, or possess both vertical and horizontal characteristics. Amalgamations may be either horizontal or vertical. Kartells, on the other hand, are always horizontal combinations.

A typical example of an association which is both vertical *and* horizontal is Unilever Ltd., a company which not only controls world-wide supplies of animal and vegetable oil, but also owns many independent factories throughout the world engaged in the manufacture of soap, candles, margarine and other similar commodities.

Factors which favour Industrial Combination.

In the early days of industrial evolution, keen competition between a large number of small producers and differences in their management ability and facilities involved the disappearance of the least efficient. Under modern conditions, however, competitors are relatively few in number and relatively large in resources, whilst business ability in the higher ranks of management does not vary to any great extent. In such circumstances, competition differs in its economic aspects from that of a century ago. Nowadays a business may continue long after it has ceased to make adequate profits, mainly because enormous losses would be involved in a realisation of the assets. Under the joint-stock system liquidation is often staved off until the whole capital has been lost. Cut-throat competition may therefore involve an industry in serious disorganisation, and combination between individual producers is a natural outcome, especially where there is a relatively small number of separate firms and where the product is standardised.

Certain external factors have also encouraged the development of combination. Extensive sales—essential to the successful working of a strong combination—have been made possible by the growth of transport facilities, while the development of the telephone, telegraph and wireless has facilitated the management of large businesses even though their various plants and establishments are widely separated.

Tariffs, too, have, in some cases, had the effect of stimulating

combinations. The protection of the home market leads to the establishment of vested interests and encourages combination amongst those who benefit from the tariffs, for the purpose of presenting a united front should any attempt be made to remove the protection.

Some combinations have been encouraged by special transport rates. Railways often grant reduced rates for large consignments and such discrimination may well encourage a producer to enlarge the sphere of his activities by absorbing competitors, so as to obtain greater advantage from the favourable rates; and, when he has done this, the advantage he gains may so strengthen his competitive powers as to enable him to achieve a virtual monopoly.

The formation of combines is sometimes cumulative. Where one industry is brought largely under monopolistic control, other industries in close business contact with that industry may also tend to place their interests under single control so as to be able to bargain more effectively. This also applies internationally, since the formation of combines in one country often leads to the establishment of similar organisations in other countries.

Advantages of Combination.

Apart from the advantages which accrue naturally from large-scale production, there are a number of advantages which are peculiar to combinations. First, the cost of selling may be greatly reduced. Competition almost always involves extensive and costly advertising which may not have the effect of increasing sales but merely of attracting customers from one manufacturer to another. Combination greatly reduces this expense.

Secondly, if different producing units scattered throughout the country are brought under a centralised management, orders can be received at a central office and distributed among the producing units according to the districts from which they emanate. Thus, goods can be despatched to customers from the nearest producing unit, thereby saving freight expenses and avoiding cross freights.

Next, the success of any particular unit depends on the ability of its manager, and a combination of competing units can select the best brains to manage the entire concern. Further, it is often found that the managers of different firms are efficient in different aspects of management. By combining the separate units, the combined managerial skill can be distributed to achieve the greatest degree of efficiency; each manager can specialise on the work for which he is best suited. In a similar way, the separate units may be efficient in the production of different grades of goods and, by allocating the total output among the units according to the special proficiency of each, a combination achieves better results than is the case where each unit produces a whole range of goods.

A fourth advantage is that a combination is better able to extend its operations, particularly in foreign markets. The uncertainty which may arise from a state of free competition often discourages the wide extension of businesses. The combination is in a better position than a number of individual producers to regulate production and assure the stability of supplies in relation to demand. In this way, price stability, which is of such importance in modern communities, is achieved.

Further, a combination controlling the larger part of a market is not subject to the danger of granting excessive credit to customers. In an effort to increase sales, an individual producer subject to competition may grant excessively favourable terms of credit to purchasers so as to induce them to transfer their custom from competitors, and in so doing he may involve himself and others in considerable losses.

The Efficiency of Combines.

In reviewing the advantages of industrial combination, a distinction must be drawn between the economies of large-scale organisation and the economies arising from monopoly. It is generally admitted that a large unit is more efficient than a small unit, but it does not follow from this that a combination is the most efficient form of business. The advantages peculiar to monopolistic combines, as distinct from large-scale organisations, are only possible in some industries.

With regard to the ordinary economies arising out of large-scale production, maximum efficiency can be achieved only by large units; but these need not necessarily be *combinations.* Moreover, in all industries there is an " optimum " size for the scale of production beyond which extensions do not result in greater efficiency; it has been estimated that a steel mill with a daily output of 2000 tons can produce as cheaply per ton as one with an output of 5000 tons.

Turning to particular economies, we may first deal with the purchase of supplies of raw material. It is sometimes stated that a combine can obtain raw materials more cheaply than individual firms either by means of bulk purchases or by acquiring its own sources by vertical combination. With regard to the first point, there are definite limits to bulk purchasing and it is associated with certain risks. However large the scale of buying, the price which the purchaser can obtain must be sufficient to cover cost of production, and the fact that under modern conditions prices are never at a very high level above cost means that there are distinct limits to the economies that can be achieved by large-scale buying.

The risks which arise out of bulk purchasing are those which spring from the possibility of error of judgment with regard both to price movements and to the demand for the finished product. For instance, the United States Steel Corporation

found it safer and, in the long run, more economical to allow the constituent firms to purchase their raw materials separately. With regard to the acquisition of sources of supply, it is found that this is not always the cheapest method of obtaining supplies, the reason being that those responsible for the supplies have not the incentive to efficiency which is provided by open competition.

It is sometimes claimed that a combine may force down the price of raw materials by restricting the output of finished products and thus reducing the demand for the raw materials. This policy can be effective only where the producers of the materials are unorganised, and where the combination controls a very large proportion of normal demand. In any case, the reduction in prices is available also to its competitors.

In the sphere of selling, also, there are definite limits to the economies which are possible. It has already been mentioned that combination can reduce expenditure on advertising. Experience, however, shows that combinations are most frequently found in those trades where advertising has never been an important item, *e.g.*, the iron and steel trade. In other trades, such as whisky and tobacco, control is so often incomplete, and the nature of demand is so artificial and unstable, that no appreciable saving on advertising has resulted from combination.

The claim that a combine can secure the best managing ability must also be qualified. The standard of managing ability required varies with the size and nature of the undertaking. The management of a combine must be more efficient than that of a smaller unit in order to achieve even *equal* success, since management of the larger concern is essentially a more difficult problem.

Next, it is important to consider the possibility that the efficiency of the industry may be reduced under combination owing to the removal of the spur of competition. Losses resulting from this tendency must be taken into consideration when estimating the economies which accrue in other directions.

Finally, there arises a real danger of over-capitalisation from the payment of excessive prices for properties and businesses acquired. Experience shows that when a combination is formed from a large number of firms, assets are nearly always purchased at a higher figure than their real worth. This is most marked if the combination is formed during a period of prosperity. While this does not directly impair efficiency, it may do so indirectly, since new capital can be raised only on unfavourable terms and this increases the amount of overhead charges.

Even where a combine has proved successful, there is nothing to show that the success has been the result of combination alone. In fact, in some cases, even though success has been achieved by a combine, the success of competitors has been greater. A striking instance of this is afforded by the tobacco industry, where independent concerns such as Carreras (the Black

Cat firm) and Abdulla & Co. Ltd. have achieved a marked degree of success and have maintained their business at least as well as the huge Imperial Tobacco Combine.

Decentralisation.

The standard of management necessary for the successful running of a large concern is obviously very much higher than that needed for a smaller business, and, as a concern becomes larger, a more efficient management is required. This represents a serious problem. There is the difficulty of securing suitable controllers. There is the danger that details may be ignored, or left to under-officials who do not possess adequate authority; that "red-tape" methods may creep in; that the system may become cumbersome; and that initiative may be checked by the constant necessity of having to refer matters for the central sanction.

By *decentralisation*, which implies the delegation of functions to the management of individual units, most of these disadvantages can be avoided or lessened, whilst the advantages of unified working are still retained. The management of the individual units comprising the combine is placed in the hands of boards or committees of management, who control their own units, subject to the direction and instruction of the central control. Representatives of these local boards may serve on the central control, or they may merely advise that body on matters which relate especially to their own organisation. In either case the system ensures that adequate attention is paid to detail. The granting of responsibility and authority to the local managements encourages initiative and self-reliance and facilitates the rapid execution of decisions, whilst ensuring reference to the central control on points of policy.

In the great Imperial Chemical Industries combine, for instance, the co-ordinating link between the general purposes committee and the various group executives is provided by an intermediate body called the Central Administration Committee. This is composed of the chairmen of the subsidiaries, with a number of the headquarters' senior officers, and is presided over by one of the directors. Through that machinery are secured both devolution of responsibility and a free channel of communication from the factories right up to the chairman and the board of the combine. The devolution encourages decision and self-reliance, while free communication permits of orderly reference on points of policy and rapid execution of decision.

The Kartell.

The kartell type of organisation is a loose form of combination, wherein each component unit retains a large measure of independence. There are many different forms of kartell,

ranging from the informal "honourable understandings" or "price agreements" to maintain prices in the retail trades, to the complicated organisation, strictly formal in its operation in regulating prices, output and profits according to a rigid "quota," such as the famous German Westphalian Coal Kartell. In recent years some of the great kartells have become international in scope.

PRICE AGREEMENTS.—These involve simply an undertaking by the various units not to sell below a fixed price. They may be formal, in which case they are known as a Price Maintenance Association, or informal, and are not necessarily permanent. The chief difficulty of such organisations, unless they are legal and enforceable, as in Germany, is the ease with which the members may evade their undertakings—evasion often found profitable by agents for the sale of the product, and also common where an individual company thinks it is losing by the arrangement. This uncertainty naturally leads to mutual mistrust, which has resulted, in the case of the more formal associations, in the provision of penalties for non-compliance, the deposit of funds as a guarantee, and the appointment of an independent auditor. Another important weakness is that supply is uncontrolled; each unit is free to increase its output and this may ultimately lead to a forced reduction of prices, for there is only a limited demand at any fixed price.

OUTPUT RESTRICTION AGREEMENTS require still greater control, and successful organisation is even more difficult. The greatest obstacle is the developing, progressive firm, whose output quota is necessarily fixed on past figures. The system is criticised on the ground that the inefficient producer is maintained instead of eliminated, as he would be were competition unrestricted.

AGREEMENTS FOR POOLING ORDERS are a still higher type of kartell organisation, and require some arrangement for the division of customers, usually on a geographical basis. Thus, the Imperial Tobacco Company of Great Britain and Ireland and the American Tobacco Company agreed not to compete with each other in their particular spheres of operation.

AGREEMENTS FOR POOLING PROFITS are arrangements whereby each producer pays into a pool his receipts, less expenses, for division among members in predetermined proportions. They are subject to the serious drawback that the incentive to more efficient production is largely removed, the fear of expulsion being the only safeguard. Accordingly, it is usual to fix both a standard cost and a standard selling price, and to provide that production gains shall go to the firm concerned, and marketing gains to the pool. Nevertheless, the fear of secret evasion has led to the formation of the highest type of kartell, described below.

PARTICIPATING KARTELL WITH SELLING SYNDICATES.—The

essence of this form of agreement is that competing firms establish for a definite period a joint selling agency which has exclusive rights for the sale of their products, each producer being allotted a "participation" in the total output. Producers exceeding their quotas pay a fine, and those whose output is below the quota receive compensation. The selling agency is registered as a separate company, the individual firms being the shareholders and having voting rights in proportion to their quotas. A basic "cost" price is fixed by agreement among the members who sell their products to the agency at a price fixed somewhat higher than the basic price. The agency sells the products at the highest price it can, discriminating between different markets if necessary. In this way, production gains go to the individual firms, which afterwards share in the marketing gains of the selling agency according to their outputs.

Trade Associations.

A looser form of combination than either the kartell or the complete fusion is the *Trade Association*, the most common form of which is that whereby each member takes a financial stake in the Association by subscribing a substantial sum to a common fund, which is subsequently increased by further periodical contributions according to each member's sales, etc.

The principal objects of such an Association are to fix the price of the product and the terms of its sale. In order that each member shall receive equal treatment, an independent secretary is appointed to whom periodical returns are made. This has the effect of maintaining secrecy as between members and neutrality in the treatment of each. A general committee is elected, representing both large and small interests, one of whose functions it is to fix prices, although in large associations this function may be delegated to a special sub-committee.

To prevent undercutting or other unfair methods of competition, it is usual to fix penalties for any infringement of the agreement, and these are paid into the common fund, which is placed in the hands of a board of trustees for investment or for use in collective advertising, etc. Members wishing to retire from the Association are required to give notice, but may withdraw their contributions, less a percentage for administration expenses. Any member who, through violating the terms of the agreement or other cause, is expelled from the Association, loses his contribution to the fund. The effect of such arrangements is to make members more loyal to the agreement than would otherwise be the case.

Arrangements are sometimes made whereby each member is guaranteed a fair share of the orders. Generally a period of past trading is used as a basis for fixing "quotas," and returns are made to the Secretary of the Association of the output of each member over that period. Periodical returns are made by

members after the formation of the Association and orders are then allocated in such a way that no single member obtains an unfair advantage over the others. In some cases, in order to maintain orders and output, rebates are offered to customers who can show that they have not purchased goods from traders outside the Association.

The scheme might well be applied in some cases to the retail trade. Where undercutting is resorted to by multiple shops a strong retailers' association might be able to bring pressure to bear on manufacturers by the threat that members will cease to stock articles which are not supplied under a selling-price agreement. The problem of price-fixing is discussed more fully in Chapter 27.

Associations of this kind usually render extremely valuable ancillary services to their members. These include the setting up of centralised credit information bureaux, research laboratories or departments, central selling agencies which undertake collective advertising campaigns and make market researches, debt collection departments and similar services. They are also able to gather information regarding new methods of manufacture or of costing and disseminate them among the members. Sometimes there is a special section dealing with legislation, and this would serve its members, for example, by interesting itself in proposed changes in tariffs and voicing the opinions of the members if they were opposed to such changes.

Rings, Corners, Pools and Syndicates.

There are various less well-defined arrangements whose objects are of a more speculative and restrictive nature. A *Ring* or *Corner* is a combination of capitalists or dealers having for its object the artificial regulation of the supplies of a commodity in order to raise prices and so reap a greater profit.

A *Pool* is a combination of producers whose object is the elimination of competition by dividing the market, total output or earnings on an agreed basis. Such organisations were common in the United States at the end of last century, and their abuse led to the decision of the Courts that they were in restraint of trade, and so illegal. The effect of this decision was to stimulate the growth of trusts.

A *Syndicate*, like a pool, is a terminable association for the regulation of output and price, but it differs from a pool in that it takes over the whole business of sales, leaving only the technical management of the works to the constituent firms. The member firms sell their output to the company at a price fixed by the syndicate which, in turn, sells to the public at prices determined by the executive according to the state of the market. Syndicates may compete with one another, or may divide the national territory, or they may even agree to share international markets.

Amalgamation in the United Kingdom.

Terminable associations for the regulation of price and the control of output, being in restraint of trade, are repugnant to English law. Consequently, redress for breach of the contracts of association cannot be sought in our courts, with the result that our associations have never been so closely knit as those of Germany. Generally, working agreements in this country take the form of price associations though the tendency towards closer amalgamation is growing. Impetus to amalgamation has been given by the success of such concerns as J. & P. Coats Ltd., Imperial Chemical Industries Ltd., The Imperial Tobacco Co. Ltd., and Wall-paper Manufacturers Ltd., which have for some years held sway over their respective industries.

Rationalisation.

After the Great War, efforts were made to develop a more systematic administration of industry. This process is technically known as *Rationalisation*, a term which means the reorganisation of industrial concerns on the most modern and most scientific lines, so as to secure greater economy and greater profit in relation to capital outlay. This implies the writing-off of existing superfluous assets, the elimination of inefficient productive units and of weak selling agencies, and the reduction of overhead costs through the economies of large-scale manufacture and co-operative buying and selling. It means improved technique and organisation, designed to secure the maximum results of co-ordinated effort, to minimise waste of both labour and material, and to make the maximum use of capital works by concentration. It involves scientific management, standardisation of machinery, materials and products, simplification of processes, and improvements in distribution and marketing. In short, rationalisation aims at the elimination of inefficiency and waste and the organisation of each industry as a unit.

Rationalisation, though by no means synonymous with amalgamation, often involves amalgamation and is nearly always achieved by some scheme of co-ordination or co-operation of productive units. This is the inevitable result of the realisation that the old individualism of the nineteenth century cannot challenge the growing team-work of the twentieth. The small individual unit of production was well suited to the requirements of the last century. No great harm was done then if the thousands of individual units competed fiercely with one another, since this competition provided a useful spur to progressive efficiency.

But after the Great War a complete change came over the industrial situation. Throughout the world, manufacturers were hard put to it to find markets for their goods. Following

the great price collapse which began in 1921, the world's producing capacity ran ahead of consumption; there were too many cotton mills, too many steel works and too many coal mines, not necessarily in this country, but in the world as a whole.

This lead all progressive countries to concentrate production on the most efficient units, to eliminate the superfluous and relatively inefficient concerns, and to ensure that those which remained could, by the application of scientific methods and well-planned co-ordination, attain a really competitive position in the world's markets.

Associations of Employers.

The association of employers in one or more industries must be distinguished from those combinations of producers which are dealt with above, for, as a general rule, the main object of these associations is not to make a conscious attempt to obtain a monopoly of the supply of goods or services, but to exercise supervision over the interests of employers generally, either in a particular trade, district or country, and from this point of view they may be regarded as employers' trade unions. To some extent, however, a strong Employers' Association in an industry controls the demand price for labour in that industry (*i.e.*, it is a *buyer's* monopoly), and, although it is not usually regarded as a monopoly, the monopoly power which such an association possesses is by no means negligible. Furthermore, such combinations frequently develop into associations for the purpose of controlling output and price.

Employers' associations usually concern themselves not only with labour questions, but also with matters of general interest to the industry as a whole. By the financing of research work in technical and marketing matters, by the dissemination of commercial information, and by the encouragement of standardisation in products, they perform work of the greatest utility.

Control of Services.

Some of the most powerful associations in existence are those which control the supply of services, as, for example, the control of medical services by the British Medical Association. Thanks to the activities of this body, the practice of medicine in this country is legally restricted to registered practitioners who have passed certain tests of technical knowledge and have satisfied certain prescribed conditions. Similar associations exist to restrict membership of the dental, accountancy and other professions.

A trade union also may be regarded as having a monopoly of a certain class of labour. Trade unions are associations of wage-earners formed for the purpose of maintaining and improving wages, the standard of living and conditions of work by limiting the number of entrants to the trade, by opposing the employment of non-union labour, and by insisting on standard rates of wages. A powerful union exercises monopoly power, and exerts the same effect on the price of labour as does a powerful producers' combination on the price of its material products. But the control of wages by trade unions is limited by economic conditions, and even the strongest are, in effect, only limited monopolies.

Safeguards against Abuse of Monopolistic Power.

The relationship between monopoly and the consumer presents a difficult question. It has been pointed out that a monopoly, to be effective, must control practically the whole of the total supply of the commodity concerned ; otherwise, prices will be ruled by firms outside the combine. Under such conditions, the safeguard against extortion afforded to the consumer by competition is removed, and the question arises whether there are any natural safeguards against abuse of power by monopolists. Certain safeguards do exist, but these may not always be effective.

It is said that the possible use of *substitutes* will prevent extortionate prices, but the use of these may probably inconvenience the consumer, while, in many cases, the monopolist can control supplies of substitutes also. Secondly, it is said that the higher the price the greater the difficulty of maintaining the monopoly, owing to the incentive to new producers to enter the market. This argument, again, carries little weight, except as applied to extreme extortion, for in all cases the entry of new competitors can be made very difficult (*e.g.*, by deferred rebates, local price reductions, tying-clause leases). Moreover, the large amount of machinery required in modern industry, and the heavy initial outlay thus involved, may discourage or delay the entrance of new competition.

Next, it is thought that the possibility of *foreign competition* provides a sure check to exploitation. The maintenance of Free Trade by this country was, for this reason, said to prevent an abuse of the monopoly powers enjoyed by some British firms. But this protection may be entirely destroyed by the formation of international agreements among producers.

Fourthly, it is argued that a monopolist cannot afford to sacrifice his reputation if he wishes to continue in business, and that he must create a favourable *public opinion* of his activities. The weakness of this contention is that it assumes that the general public has an accurate knowledge of the monopolistic activities, a state of affairs which seldom obtains.

Further, combinations of consumers, *e.g.*, co-operative societies, may be formed if monopoly prices are forced too high. The weakness here lies in the fact that it is difficult to initiate the movement, and, if the monopoly is one of necessaries, the monopolist's power will not be lessened to any serious extent.

State Regulation of Monopolies.

It is obvious, therefore, that although there exist certain forces which prevent monopolists from abusing the power they possess, such forces are, in the main, weak. For this reason, State action is sometimes necessary in the interests of the community. It does not appear, however, to be either desirable or possible to destroy trusts and monopolies by legislation. Experience in the United States has shown that this method only causes the organisations to take on a still more undesirable form, *i.e.*, it drives them underground. The restoration of competition by artificial means has also been advocated, but this is definitely impracticable. What is important is that the field should be kept clear for new competition by forbidding "unfair competition" in the form of rebates, price discrimination, etc., and that some means should be devised of securing absolute publicity.

It has been suggested that the State should control the prices which can be charged by a monopoly, or limit the amount of profits which may be distributed. This would involve the establishment of a Government Department with a staff qualified to analyse the accounts of the firms concerned. It would also be necessary to determine a *reasonable* level of prices and profits. The difficulty in this matter is obvious. The profits of a combination may be due to superior management or to the possession of special patents or equipment as well as to the possession of a monopoly, and it would be difficult to separate such gains. Moreover, it is difficult to assess the meaning of profits. For example, should the rate of profit on share capital be taken as the basis, or should gross income be considered? Moreover, allowances would have to be made for variations in output, since prices and profits vary with the output.

One of the best examples of State control of monopoly prices is afforded by the gas industry. In that industry, where it has been necessary to put a monopoly into private hands, there is an arrangement whereby dividends may only be increased if the price of gas is reduced, and if the price of gas is raised dividends must be reduced.

There are some who consider that legislation is not sufficient to control combinations, and that the State should acquire control and use the concerns for the good of the public generally. It is no part of the present book to set out the arguments for and against State ownership of monopolies, but it may be mentioned

that in the nationalisation of a concern which supplies manufactured goods to a widely scattered market, special problems arise which are not encountered in public control of such industries as railways and gas, water and electricity undertakings. The latter are well suited to an extension of State activity because their products are perfectly uniform and there are no marketing risks ; moreover, there is no foreign competition and their interests do not conflict (except in a most obvious manner) with those of other industries. The nationalisation of industries which fail to satisfy these conditions is a far more delicate problem. (See also Chapter 48.)

QUESTIONS BEARING ON CHAPTER 10

1. Distinguish between the several types of capitalistic combination or consolidation of business units.

What are—

(*a*) The possible advantages,

(*b*) The possible dangers,

of each method to—

(1) The business concerns themselves,

(2) The purchasing public ?

(*R.S.A., Stage III.*)

2. Describe how a holding company can be made to effect a combination of interests in business. What are its advantages over the other forms of combination ? (*R.S.A., Stage III.*)

3. What is the difference between a trust and a cartel ? What distinctions can you draw between each of these and a typical English combine ? (*R.S.A., Stage III.*)

4. How far, and in what manner, is " rationalisation " likely to prove beneficial to manufacturers who adopt it ? (*S.A.A., Final.*)

5. " Cartels aim at control of the market, while trusts aim at independence of the market." Examine the implications of this contrast. Are you prepared to accept it ? (*R.S.A., Stage III.*)

6. What is generally understood by the term " Rationalisation " ? Discuss the problem of its application to British industries. (*S.A.A., Final.*)

7. Give your definition of a " Cartel," and explain its objects. (*C.A., Inter.*)

8. What classes of combinations are found among business units ? What general circumstances does experience prove to be conducive to the formation of these combinations ? Give examples. (*R.S.A., Stage III.*)

9. What is a cartel ? Distinguish it from a trust. (*London Chamber of Commerce, Higher.*)

10. Examine the conditions and motives which have led to the emergence of combinations, and explain the comparative slowness of British trade and industry to advance in this direction. (*R.S.A., Stage III.*)

11. Classify the different kinds of combinations met with in British trade and industry, and examine the conditions specially favouring the growth of each. (*R.S.A., Stage III.*)

12. Discuss the conditions which favour the development of (*a*) syndicates, (*b*) cartels. What special problems are inherent in each of these types of combinations? (*R.S.A., Stage III.*)

CHAPTER 11

ESTABLISHMENT AND ORGANISATION OF A COMMERCIAL HOUSE

ESTABLISHMENT

A COMMERCIAL house normally comes into existence by the establishment of either (*a*) a one-man business, (*b*) a partnership. or (*c*) a limited company. No special procedure is necessary in the case of the first two classes, but in the establishment of a limited company, the *legal* processes involved are considerably more complicated.

One-Man Businesses.

A one-man business is carried on by a *sole trader*, who normally provides all the capital required, though this may be supplemented by loans from friends or bankers. The expansion of such a business is necessarily limited by the financial resources of the owner; and this fact, together with the need for specialist attention to the various departments of the concern, usually leads, if the business attains any size, to the establishment of a partnership or limited company.

Partnerships.

A partnership may be established by an informal agreement, although, as was pointed out in Chapter 8, the formality of drawing up articles of partnership is advisable. In any event, once the agreement has been entered into, the firm is free to commence business, provided it has available the necessary capital and labour.

Partners may be *active* or *sleeping*, or *quasi-partners*. An ACTIVE PARTNER is one who takes an active part in the management of the firm: in most cases he will have supplied a portion of the firm's capital, but sometimes persons, usually trusted employees, are admitted into partnership without their providing any capital.

A SLEEPING PARTNER, on the other hand, is one who, though providing part of the firm's capital and receiving a share of the profits, takes no part in the management of the firm.

A QUASI-PARTNER resembles a sleeping partner, but instead of receiving a share of the profits, he receives interest upon his capital at a rate varying with the profits of the firm.

A partnership may not legally consist of more than twenty partners; and this fact, as well as the fact that persons of considerable wealth are naturally unwilling to incur liability to the extent of their entire fortunes by taking perhaps only a small interest in a partnership, tends to impose limits upon the expansion of a private firm. When, therefore, a business attains any considerable size, it is usual to convert it into either a private or a public company.

Private Limited Companies.

Where the persons interested in the formation of a company are prepared to supply the whole of the necessary capital, a *private* company may be formed by carrying out the formalities of registration described in Chapter 9.

Sometimes, when it is desired to form a new company, the promoters are able to save themselves part of the incorporation expenses by buying up the name and registration of a company which has become defunct, or which is about to cease operations. Actually, this is done by buying the shares of the company, the consideration being calculated to cover whatever assets the company may have (usually of little value), *plus* the value of the registration.

The purchasers then take control and alter the Articles to suit their requirements. Needless to say, this procedure will be followed only where the Objects Clause in the Memorandum of the existing company gives wide enough powers to enable the new business to be carried on.

Public Limited Companies.

The promotion of a public limited company is more complicated. The company may be formed either to take over the business of an established concern, or to exploit a new invention, or possibly to begin an entirely new business in some profitable line. In all cases it is nowadays customary to use the services of a *company promoter*, who specialises in the formation of companies; indeed, many companies owe their inception to company promoters (usually *Issuing Houses*) who have seen a possibility of making profit by arranging the flotation.

Formation of a Limited Company.

To illustrate the complications that may arise, we will consider the steps which have to be taken to turn a going concern into a limited company with the aid of new capital subscribed by the public.

The promoter must arrange, first, the price at which the proprietors of the existing business will sell to the company. Thereafter he must fix the capital of the new company: this must be sufficient to provide adequate working capital of

covering the purchase price demanded by the existing proprietors (usually termed the *vendors*), together with the expenses of floating the company. Thirdly, he must arrange how the vendors are to receive their payment—whether in cash or in shares, or partly one and partly the other. Very frequently the vendors will require to be appointed managing directors or life directors. Having arranged these and other matters, the promoter must procure the services of solicitors to draft the Memorandum, Articles and other legal forms ; of bankers to allow their names to be used in connection with the flotation ; of suitable gentlemen with the necessary qualifications and/or experience, or with well-known names, to act as directors. He must also arrange for seven persons to subscribe their names to the Memorandum, whereby they become *founders* of the company and agree to become members thereof.

When the prospectus has been approved by the Board of Directors, the promoter will make arrangements with printers and advertising agents for the printing and issue of copies. Many advertising agents have at their disposal a specialised organisation for this type of business and will arrange for the appearance of the prospectus in certain newspapers. Forms of application for the shares will be attached to the prospectuses, and these will be filled up by the subscribing public and sent with the necessary cheques for the " application money " to the company's bankers.

Applications for Shares.

The form of application for the shares will state the amount payable on application. This usually represents only a relatively small proportion of the nominal amount of the shares : thus in the case of a £1 share, 2*s*. 6*d*. may be payable on application, 7*s*. 6*d*. on allotment, and 10*s*. three months after allotment. In some cases, however, where shares are to be "*partly*" and not " fully paid," a proportion of the nominal amount of the shares may not become payable until it is " called " by the company's directors.

Where an issue is "*oversubscribed*," and it is not possible to allot applicants all the shares applied for, it is customary to retain any excess moneys forwarded and to apply them towards subsequent instalments on the actual shares allotted.

Dealing with Applications.

Before a prospectus is issued arrangements must be made for the company's bankers to receive the application money, to forward to the company each day a special pass-book or loose sheets duly written up with a record of all the transactions, and to keep a separate account for each class of shares.

Usually the " Form of Application " used by the public is divided by perforation into two parts, one of which contains

the "Application," and the other a form of receipt which is filled in by the bank and returned to the applicant.

As the Forms of Application are received they are checked with the special pass-book and entered in a suitably ruled *Application and Allotment Book* (or on loose sheets which are afterwards bound), the first names to be entered being those of the subscribers to the Memorandum of Association.

The chairman of the company, or a sub-committee, then goes through the list so prepared, marking the applications which are to be accepted in whole or in part, as well as those which are to be refused (if any). This being done, the Board of Directors will be in a position to make a formal *allotment* at a properly constituted meeting. If the amount for which applications have been received does not exceed the total to be issued, the allotments may be made *en bloc*, but in the case of a first issue of shares no allotment may take place if the *minimum subscription* has not been obtained (see page 68).

As soon as the allotment has been completed, the secretary must arrange for *Allotment Letters* to be prepared and posted. These letters are merely formal intimations to subscribers that they have been allotted certain shares. Should the issue be *oversubscribed*, Letters of Regret are also prepared and sent to those persons whose applications have been unsuccessful, and whose application money is at the same time returned. When the Allotment Book is written up, the distinctive numbers of the shares are entered so that the share certificates may thereafter be prepared from the recorded particulars. These certificates must be ready within two months, unless the conditions of issue provide otherwise. The *Register of Members* is also completed, and a *Return of the Allotments* is sent to the Registrar of Companies.

To facilitate the sale and transfer of the shares pending the issue of the definitive certificates, companies usually have printed on the back of the allotment letters a *Letter of Renunciation* whereby the allottee can, if he wishes, renounce his rights to the shares in favour of a person to whom he has sold them. The latter signs a "Registration Application Form" which is included in the letter, and forwards the document to the com pany so that it can register the shares in his name.

Usually, the allottee is given the right to have his allotment "split" once on payment of a fee for each split allotment letter which is issued; this is useful where he wishes to dispose of part only of his holding, or where he has sold it in portions to different purchasers.

Issues of Debentures.

In addition to the issue of *share capital* in the form of Preference, Ordinary or Deferred Shares (see Chapter 9), companies frequently obtain additional capital by the issue of

Debentures. The procedure involved in the issue of Debentures is similar to that described above; but, as is explained on page 78, there are certain fundamental differences between debentures and shares.

In an issue of bearer debentures, the place of an allotment letter is commonly taken by a *Scrip Certificate*, which is fully negotiable. The same procedure is possible when bearer stock is issued,[1] but it cannot, of course, be adopted when shares are being issued partly paid, since it is necessary to retain the liability of the allottees for the unpaid portion of the share capital.

The Capital of a Business.

As soon as the company has raised the funds necessary to enable it to commence business, the next step is to consider how the capital is to be employed to the best advantage; though the exact manner in which the capital is expended will depend largely upon the nature of the business. In the case of a manufacturing concern, a large amount will be employed in the purchase or erection of premises; in the purchase, replacement or renovation of plant, machinery and office equipment; and in the purchase of stocks of raw materials. In the case of a retail or warehousing business, the bulk of the expenditure will be on the purchase and equipment of premises, and on the purchase of sufficient stocks for the commencement or continuance of business.

Assets such as buildings and machinery intended for *permanent* use or employment in the business are known as "*fixed assets*" or "*fixed capital*," whereas assets such as stock and raw materials which are continually changing, are described as "*circulating capital*" or "*circulating assets.*"

After the purchase of the fixed assets, a certain amount of capital will remain. This will constitute the "*working capital*" of the concern, a term which signifies the amount of liquid funds available for carrying on the business, and this may exist in the form of cash, bank balances or realisable securities. Such capital may be partly derived from loans or trade-credit. Frequently a business may suffer not from lack of capital but from lack of working capital, arising from the fact that too great a proportion of the resources of the business is locked up in fixed assets.

The proportion of fixed to circulating capital may vary considerably as between different types of businesses. Thus a manufacturing concern will usually have a high proportion of fixed assets, since manufacturing usually involves the mainten-

[1] A registered joint-stock company is not allowed to issue its share capital the form of stock, though after issue fully paid shares may be converted into stock. This restriction does not apply to statutory companies.

ance of expensive plant and machinery, whereas the floating assets are continually being used up and replaced. On the other hand, a wholesale warehouseman usually requires a higher proportion of working capital, since he uses no machinery, but is concerned merely with the selling of goods in the same form as when he bought them. In small retail businesses, where shop fittings are usually of a simple nature, the proportion of fixed capital will not be great, but in large retail businesses the proportion of fixed capital will usually be somewhat higher, since it is necessary to fit out the establishment in an attractive manner.

Again, what is fixed capital in one business may be circulating capital in another. A fleet of motor-cars owned by a taxi-driver must be regarded as fixed capital; whereas the same cars in the hands of the manufacturer would constitute circulating capital.

The Importance of Good Credit.

We have seen that, in modern industry, with its efficient but involved methods of production, long periods frequently elapse between the first and last stages of manufacture, and capital is necessary to maintain the producers pending completion of the work. Capital must also provide the necessary raw materials, tools, machinery and power.

But capital does not necessarily mean *money*. A business may have little money but plenty of capital, for money is by no means the only form of capital used in modern business. The *reputation* for possessing adequate resources, as well as for fair dealing, will, to a very large extent, take the place of *actual* money, and for all practical purposes will perform the same functions as the possession of liquid funds. In practice, therefore, good credit is as important as adequate supplies of cash or other forms of working resources.

BUSINESS ORGANISATION

Once the necessary capital has been obtained, the next essential is the development of a scheme of organisation and of machinery for putting the scheme into effect. The details of any scheme of organisation must, of course, depend largely upon the nature of the undertaking concerned; but certain general principles hold good for every type of business.

The General Policy of the Business.

If the business is to achieve any ordered progress, it is necessary that some clearly defined general policy should be decided upon at the outset. For example, a manufacturing business may be equipped for the production of all types of goods of a certain class; or it may be formed to specialise in certain types or qualities. Similar variations affect the selling policy, for example, whether it is proposed to concentrate on

either the home or the export market, or to cater for both; whether the intention is to deal with wholesalers only, or to sell direct to the retailer. Alternative policies are also available concerning the employment of agents in the purchase of raw materials and the sale of the finished product.

Corresponding decisions must be made by those establishing a trading concern. In most cases it will be decided to concentrate upon either the wholesale or the retail side of the business; though by some concerns both classes of business may be carried on. A retail business must decide whether its activities are to be concentrated in a single establishment, or whether branches are to be opened. Decisions must also be made regarding the sales and credit policies which it is intended to pursue.

Ownership and Control.

In the case of one-man businesses, partnerships and private companies, both the control of the capital and the management of the concern will usually be vested in the proprietors; but in the case of a public limited company, the large number and continually changing constitution of the body of shareholders make this system of organisation impossible. In the joint-stock company, ownership of the capital is divorced from the management of the undertaking, and control is delegated by the shareholders to a Board of Directors, who are responsible for the general direction and policy of the business. But though it is the function of the Board of Directors to determine matters of general policy, details concerning the management of the undertaking are usually entrusted either to one of the Board as Managing Director, or to a General Manager, who may or may not be a member of the Board. In the case of larger companies both a Managing Director and a General Manager may be appointed. Where this is done it is usual for the Managing Director to concern himself with the activities of the business with a view to placing before his fellow-directors detailed information regarding the business; while it will be the duty of the General Manager to undertake the administrative work involved in carrying out the general policy dictated by the Board of Directors.

The Scope of Business Organisation.

Business organisation is a term meaning the bringing together into a harmonious whole of the related or interdependent parts of a business. It comprises the methods of adapting the human factor to changing environment. Organisation achieves its objects—

(*a*) *By functionalising, i.e.*, allotting specialised duties to different persons according to the suitability of those persons for the work to be performed.

(*b*) *By keeping individual tasks within fairly narrow limits* in

order that they may be performed more easily and may ultimately become, as nearly as possible, automatic. The task of each worker is lightened by this system, because it involves less concentration. Care must be taken, however, not to carry this process so far that it becomes so monotonous as to lead to a reduced output.

Organisation is not an end itself, but only a means to an end. The end sought is to achieve economic, efficient and extensive production; and to secure this end the business must be organised with a view to the welfare of the workers as well as to the mere administration of the business. In any scheme of organisation the following considerations are important.

Specialisation.—As soon as an organisation is brought into being, the aim should be to decentralise the necessarily skilled operations in such a way that the special ability of each person is used to its full extent and so that the greatest advantages of Division of Labour are obtained.

Correlation.—The productive powers of a business unit will be wasted unless every effort is made to ensure that each department or process works in co-operation with all the others. Each member of the staff should be impressed with the fact that bad work on his part will be reflected in the quality of the final product.

Business Connection.—The ultimate object of organisation is to enable the business to sell the goods produced or handled, and it will not be able to do this unless its customers' wishes are studied and its methods adapted accordingly. If sufficient attention is paid to this aspect, the business will be enabled to develop that "goodwill" which is essential to the continued prosperity of any undertaking.

"Lay-out" of Premises.—Suitable premises for the business must be found or, possibly, erected. In either case, it is essential that the accommodation should be adequate for the purpose and that there should be sufficient room for expansion as and when required. Two considerations are involved, viz., the general lay-out of the buildings to ensure the most economical working, and the organisation of the various departments for the same purpose. The ideal lay-out will necessarily depend almost entirely upon technical considerations, such as the precise nature of the business and of the product manufactured.

OFFICE ORGANISATION

Office Accommodation and Lay-out.

A provisional list of departments, with *pro forma* allotments of staff, should be drafted, and the inter-relation of departments

should be carefully considered. The general office lay-out should be such that it harmonises where necessary with the lay-out of the works, if any. Thus, the Buying Department should be adjacent to the Stores, the Sales Department to the Finished Goods Warehouse and the Despatch Department, and so on.

The office departments which can usually be differentiated are the following :—

1. Office Manager's Department.
2. Buying or Purchases Department.
3. Sales Department.
4. Accounts Department.
5. Cash Department.
6. Internal Audit Department.

In the case of a small business a large room is preferable for general office purposes, as it has economies in such matters as supervision, lighting and heating. Where, however, the size of the business is such that separate rooms have to be allocated to different departments, these should be so arranged that departments which have frequently to communicate with one another, or to pass documents from one to the other, should be situated as close together as possible.

In many modern commercial houses the various departments are separated from one another merely by half glass partitions, with a view not only to facilitating supervision but also ensuring an automatic check on the attendances of the various members of the staff. It is desirable, however, that in every business, large or small, the Cash Department, though it may be open to view from other departments, should be definitely separated from them by partitions or counters. Likewise, the Accounts Department, Drawing Office, Artists' Department, Advertising Department and Travellers' Room should each be separated from the general office. So far as possible, all departments using machinery (*e.g.*, typewriting, accounting and duplicating machines) should be kept together and as far away as can conveniently be arranged from the rooms of important executives, whilst the rooms of officials who have regularly to receive callers (*e.g.*, the purchase manager and advertising manager) should be placed as near to the main entrance as is possible.

In a very small business several or all of the departments named above will be fused, as the work will be so simple that it can be done by one or two people. If a small office sends out one parcel a day, a single clerk can attend to it in a few minutes ; in a huge store where thousands of parcels are sent out each day, it may be necessary to establish a Packing Department to make up the parcels, and a Traffic Department to control the delivery routes and the vans.

Lighting, Heating and Ventilation.

The question of suitable lighting, heating and ventilation is one of great importance, but one which is, nevertheless, frequently overlooked. It is in the interests of the employer to attend to these matters, for the better the working conditions, the more contented and hard working will be his staff. Windows should be high, reaching, if possible, to the ceiling; the walls should be covered with a light-coloured paper or distemper, as these have a good effect on the lighting of the room and economise artificial lighting. Those performing the most exacting work should be given the best-lighted portions of the room. Ventilation should be independent of windows, which should serve merely as auxiliaries for use in warm weather, and care should be taken to avoid draughts. Central heating by steam or hot water is most economical and efficient, though steam heating tends to make the atmosphere dry.

Office Furniture.

In the selection of office furniture, attention should be given to the following points :—

(*a*) Face-to-face desks for clerks are undesirable, partly on hygienic grounds, partly because they encourage conversation.
(*b*) No documents should be kept in desks, and it is therefore best not to have accommodation for them, except that—
(*c*) Individual desks are necessary for departmental chiefs.
(*d*) Roll-top desks are useful in private offices, but if the roll is too high it may obscure the light.
(*e*) Sloping desks are most convenient for large account books, etc., and where much *reading* has to be done.
(*f*) It rarely pays to instal "cheap" office furniture. Apart from the fact that it will not last, it reacts detrimentally on the minds of customers, prospects, etc., who may visit the office. Wherever possible, the colour of the furniture chosen should be in keeping with its surroundings, whilst the various pieces should harmonise with one another both in colour and design.

Stationery.

All stationery purchases should be made by one person, to whom departments should send their requisitions. Stock records should be carefully maintained and regularly supervised. Sizes, rulings and types of forms should, as far as possible, be standardised (with the numbers, name, etc., in the same relative positions). Sizes should conform to stock sizes of papers. Where ruled paper is to be used on the typewriter or listing

machine, particular care should be taken with spacings so as to avoid unnecessary adjustments in the machine. For the same reason, underlined blanks for dates on letter headings, or printed rules with the first three figures of the year, are wasteful of time and effort and are best omitted.

The principle of uniformity of size should be followed in the ordering of catalogues, price lists, circulars, etc., as this not only renders despatch easier, by reason that the same-sized envelope can be used for all, but also makes them easier to file. This matter has become more important now that the use of "window envelopes" has become more common.

The quality of stationery is of much more consequence than is generally recognised, for if it is unduly cheap and poor in appearance a bad impression is given to customers.

The Staff.

The essential qualifications of the members of the staff vary with the nature of the particular business. Examination qualifications are always an important asset to any prospective employee: they show not only evidence of knowledge, but also, what is often more important, the fact that the applicant has had the determination to undertake a scheme of work and to carry it through to the desired end. It is for this reason that, where several applicants for a vacancy are of more or less equal merit, the applicant with the best examination qualifications will usually be successful.

In a large industrial *company* the staff will include some or all of the following officials :—

THE MANAGING DIRECTOR (and/or GENERAL MANAGER), the active head of the business who is responsible to the Board of Directors for seeing that their plans and wishes are carried out.

THE SECRETARY, who attends to all the legal formalities necessary to the conduct of the company. He deals with all matters concerning the capital and shareholders of the company, and sometimes is in charge of the books of account.

The secretary of a small concern is usually office manager also, being generally responsible for staff discipline and for the organisation of the clerical work. In a large concern, however, the secretary's office may comprise a number of subsidiary departments, including (*a*) the *Correspondence Department*, dealing with typing and filing; (*b*) the *Mailing Department*, dealing with the inward and outward mails; and (*c*) the *Registrar's Department*, dealing with all matters affecting shares, the registration of members and transfers, the preparation of returns for submission to the Registrar of Companies, together with the preparation and dispatch of dividend and interest warrants.

THE ACCOUNTANT OR HEAD BOOKKEEPER is responsible for

keeping the books of account, and for making out any financial returns required by the secretary or the managing director. In particular, he is responsible for such returns as the balance sheets, trading accounts and profit and loss accounts, which he has to prepare for the secretary to present to the directors.

THE CASHIER keeps the cash book and receives and pays out all money. He is usually responsible also for the conduct of the bank account.

THE SALES MANAGER has to see that the firm's goods are sold quickly, at the proper price. He is frequently concerned with the credit clerk in deciding upon the honesty of customers and their ability to pay; and must of necessity control the order and despatch clerks and the travellers, but occasionally the advertising department is run quite separately.

THE TRAFFIC MANAGER, or, as he is sometimes called, the TRANSPORT MANAGER, performs duties that have assumed increasing importance during recent years. His function is to arrange for the transport of goods by land, sea or air, in the most advantageous manner. It is his duty to know how, when and by what routes goods should be despatched in order to procure the maximum advantages of economy, speed and safety. An important part of his work is to control *inward* transport, especially of raw materials, with a view to ensuring that they are received in the right quarters and distributed to the right places in the works, as and when they are required.

THE PUBLICITY MANAGER, or ADVERTISING MANAGER, is in charge of all aspects of the firm's publicity system. His work may be heavy or light according to the extent to which the business indulges in publicity, but in any case it is important. He works in conjunction with the sales manager, for whom he must open up sales outlets.

THE STAFF MANAGER is concerned with all matters relating to the staff, *e.g.*, appointments, wages, discipline, conditions of work, allocation of duties, dismissals.

THE LEDGER CLERKS and DAYBOOK CLERKS keep the books of the names indicated, while INVOICE CLERKS are responsible for preparing and sending out invoices and statements.

CREDIT CLERKS have to know as much as possible about the customers of the business and their ability to pay their accounts. It is their duty to call the attention of a higher official to the existence of any overdue accounts, and he decides whether the firm shall press for payment, or wait; and, if the latter, how long it shall wait. They are also often called upon to enquire into the soundness of any prospective customer when his first order or enquiry is received.

THE HEAD CLERK is generally the office manager's chief assistant, and is in control of the whole of the correspondence, filing and records. Usually, too, he undertakes the supervision of all typists and stenographers.

Correspondents, who are sometimes chosen from the ranks of the stenographers, are selected for their ability to write or dictate letters which are good in style and appearance.

Mailing Clerks are those members of the staff who attend to the work of the mailing department, referred to above.

Filing Clerks, as their name implies, deal with the filing of letters and other documents.

Order Clerks receive all orders sent to the firm, enter them in the Order Book, classify them, and issue proper directions to the particular departments responsible for fulfilling the orders. They have to be in close touch with the works—if there are works—the warehouse, the customers, the travellers or agents and the sales manager.

Despatch Clerks attend to the office side of the despatch of goods. They see that proper directions for packing and despatch are sent to the warehouse, send off the necessary despatch notes, and advise the invoicing department of despatch. They also arrange for the transportation of the goods unless there is a special department for that purpose. If the goods are going abroad, they attend to the completion of the necessary documents, and frequently also to the insurance.

Staff Selection and Records.

A standard form of application for an appointment is desirable, as it presents the necessary information in handy and complete form. If marks are allocated to each qualification in proportion to its importance, selection is rendered easier and more satisfactory. Qualifications not provided for on the form can be described on a separate sheet of paper. Where the size of the business requires it, applicants are classified, *e.g.*, into ledger clerks, cost clerks, typists.

The heads of departments do not, as a rule, engage their own staff; they recommend suitable candidates to the staff manager, who engages all subordinate members of the staff. In some businesses there are exceptions to this rule, *e.g.*, the sales and advertising managers may engage their own staff, with, possibly, a mere " courtesy " reference to the staff manager.

A card index of employees is very convenient, the particulars being numbered and filed numerically, and referred to by number on the card, which should bear the name, address, age, qualifications, department, salary (with provision for increases), rate of overtime, remarks as to conduct and time lost, and such other information as may be required. The cards are most conveniently sorted according to departments, and, if the staff is large, an alphabetical index may be necessary. If an employee resigns, or is dismissed, a note is made of the case, and his card is transferred to an alphabetically sorted ex-employees' file.

Contracts of Employment.

To prevent disputes arising in connection with contracts of employment and, if such disputes do arise, to provide definite evidence upon which a settlement may be effected, it is advisable that *a written agreement should be entered into with every employee.* In fact, if a contract is to continue for a period definitely longer than one year from its making (even though it may be terminated by notice shorter than one year), the contract is unenforceable (by virtue of Section 4 of the Statute of Frauds) unless there is written evidence of the agreement.

A written agreement of this nature should contain the name of the employee, the amount of the salary or wages to be paid, and any other terms of the engagement, and should be signed by the employee and by the employer. The agreement must be stamped with a sixpenny adhesive stamp which must be cancelled by the party first signing it. If this is not done the stamp must be impressed at an Inland Revenue Stamp Office within fourteen days of the execution of the document. Contracts for the hire of labourers, artificers, or menial servants are, however, exempt from stamp duty. If the document is not properly stamped, it will not be admitted in evidence except under a penalty of £10 in addition to the duty originally payable.

Where no time is fixed, either expressly or impliedly, for the duration of the contract, the engagement is deemed to be for a year, although this presumption may be rebutted by the fact that wages have been paid at shorter intervals or by evidence of a contrary trade custom.

Termination of the Contract.—A contract of service is terminated by the death of the employee or by proper notice. When there is no stipulation, express or implied, as to the length of notice required, regard will be paid to the facts of the particular case, *e.g.*, the custom in similar trades and the position held (the more responsible the position, the longer the notice required). If wages are paid weekly, it may be presumed that the hiring is a weekly one, and one week's notice will suffice It has been held that a clerk can be dismissed with three months' notice and a menial servant with one month's notice. Although an employer may give wages in lieu of notice, it is not open to the employee to pay a sum of money to his employer in lieu of notice.

An employee may be dismissed without notice for wilful disobedience, gross moral misconduct, inattention, incompetence, claiming to be a partner, or conduct incompatible with the performance of his duties. The employer need not state the grounds for the dismissal, but if he does he must be prepared to prove their soundness if the employee should bring any action for wrongful dismissal. If such an action is successful

the amount of damages payable to the employee is measured by the loss *actually* incurred, bearing in mind the possibility of his obtaining other employment.

In the event of breach of agreement by the employee, the employer would not usually suffer damage unless the abilities of the employee were such as made it impossible or exceptionally difficult to replace him. Consequently, actions by employers against employees on this ground are rare.

Time and Wage Records.

The cost of labour in most concerns forms an important part of working expenses, and, apart from the question of discipline, it is essential that accurate records be kept of the hours worked by each employee and of the wages paid to him. The records may be kept either mechanically or by hand, but they should in all cases be located in or near the entrance to the office or works, so as to avoid delay and waste of time in registering on and off. Whatever the system of recording time which is adopted, the data will be used for the preparation of Time Sheets (for costing purposes), of Salary and Overtime Statements, and of Wages Sheets (for the payment of wages).

In factories and workshops time records are usually kept by mechanical devices such as those which are described in Chapter 13, but in offices of average size it is more usual to employ for this purpose an *attendance-book*, in which each employee signs his or her name on arrival both in the morning and afternoon. Late arrivals are easily traced by the simple means of removing the book at the time work should begin (frequently five minutes' grace is allowed), by ruling a red ink line across the page on the expiration of the period of grace, or by requiring late-comers to sign in a special "late-arrivals" book.

Monthly statements of individual lost time should be prepared in respect of each Department, and a comparative statement of the average per employee in the various departments, with past records also, should be displayed on the notice board. Individual time records should be entered on the Staff Record Cards, in order that the staff manager may keep track of serious cases of late arrival and act accordingly.

Overtime should be worked only by permission from the departmental manager, who notifies the staff manager. This will check individual or departmental laxity, and will give information as to seasonal or permanent pressure, in which cases it may be necessary to obtain assistance from other departments, or to make temporary or permanent additions to the departmental staff.

QUESTIONS BEARING ON CHAPTER 11

1. Outline the procedure involved in the flotation of a public limited company.

2. Explain the following terms: active partner, sleeping partner, quasi-partner.

3. Explain clearly what you understand by (*a*) the fixed capital; (*b*) the working capital; (*c*) the liquid capital; (*d*) the circulating capital of a warehousing concern. (*R.S.A., Stage II.*)

4. What points call for consideration in deciding upon the general policy of a manufacturing business?

5. "The chief advantage of the partnership over the joint-stock company is that ownership and control remain in the same hands." Comment upon this statement.

6. Into what departments is a business usually divided?

7. What are the duties of the Secretary of a company? What departments may be under his control?

8. State the duties of (*a*) credit clerks, (*b*) the accountant, (*c*) the sales manager, (*d*) the traffic manager.

9. Describe the usual method of dealing with applications for a new issue of shares.

10. State the principal factors that determine the proportion of the fixed capital of a business to its floating capital.

CHAPTER 12

OFFICE RECORDS AND ROUTINE

No business can be truly successful if the "clerical" side is not properly conducted, no matter how efficient the organisation of the production side may be. Indeed, the routine of the office is so important that in many cases an "Efficiency Manager" is appointed whose sole duty it is to organise the office in such a way as to realise the maximum of efficiency. In some cases well-known accountants have been employed to perform this service, with important results in the elimination of waste both of money and effort.

In this Chapter are considered various efficiency devices which are capable of being used in the office of any large commercial house. It will be realised, of course, that the routine adopted in any particular case must to a large extent depend on the nature of the business, and that the various methods described here cannot, therefore, claim to have universal utility. It would obviously be impossible to describe an "ideal" routine, applicable to all offices.

CORRESPONDENCE

The organisation of inward correspondence is very important, for on this depend the prompt despatch of orders, the safe handling of remittances, adequate attention to complaints, the maintenance of proper control over travellers, and, in general, the smooth running of the business as a whole.

Inward Correspondence.

It was at one time customary for the head of the business in person to open all the letters, but in a large concern this is obviously not practicable, and the incoming correspondence is usually opened (often mechanically—see illustration on next page) and sorted by members of the clerical staff under the supervision of a trusted official. Further, it is usual for this section of the staff to attend from fifteen to thirty minutes earlier than the general staff, so that the letters may be ready for attention when the working day proper begins.

The first operation in connection with the incoming mail is to stamp or otherwise mark on each letter the date and time of receipt, with the ultimate object of fixing responsibility for any

delay which may occur. Without such a safeguard the blame for a tardy reply to a letter which has been delayed in the post might be fixed on some guiltless correspondent or clerk.

Next, the mail is sorted (preferably on a large table or into trays) according to the departments concerned. Letters addressed to individuals (these should be discouraged as far as possible) are, of course, placed unopened on the desk of the addressees. Letters containing remittances are handed to the official in charge of the "post," who makes a note on the letter of the amount enclosed and crosses the cheques by means of a rubber stamp with the name of the firm's bank. The remittances themselves are listed in duplicate on an adding machine and are handed to the cashier, who, after checking each list, initials and returns one copy to the Postal Department, by

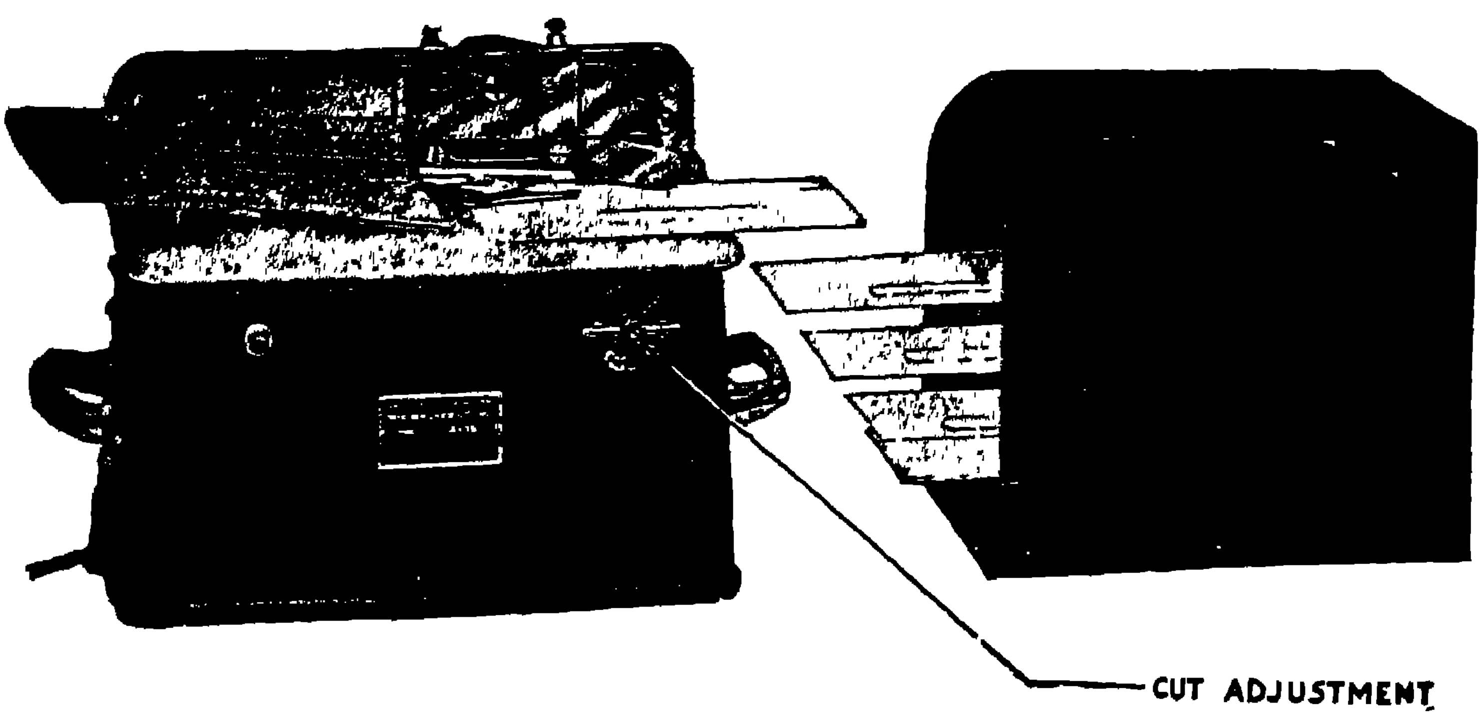


FIG. 1.—Letter Opener.

which it is forwarded to the Accountant's Department, so that it can be used as a check against the paying-in slip prepared by the cashier.

A permanent identification letter is given to each department, and letters for that department are marked with the letter as well as with a cumulative number, *e.g.*, "A" may indicate the Secretary's Department, "B" the Sales Department, and so on. The numbers for each department are carried on from day to day, but a new series is begun when the numbers have reached, say, one thousand.

The senior clerk takes the letters for each department in turn, and marks them, by means of a crayon and a hand numerator, with their departmental letters and serial numbers or, as they are usually called, *symbolic numbers*. Although a letter may be circulated to several departments, and, therefore, will bear several departmental letters, it will bear a symbolic number only against the key letter of the department responsible for the reply—an experienced senior clerk will have little difficulty in deciding which department this should be.

Copies of an *Inward Mail Summary* are then made out, one of which is sent to the secretary, so that he may form a general idea of the amount and nature of the incoming correspondence, and one to each department concerned, including the Filing Department.

Letters sent to the cashier, which as a rule are merely covers for remittances, are not, as such, given serial numbers, since the remittances themselves are listed.

A "To be Received" list is then prepared by the Filing Department in respect of each of the other departments to which letters have been passed. As each of the numbered letters is received for filing, the appropriate number is crossed off the list, and the latter is cancelled when all the letters due from the department concerned have been received for filing.

Every morning, the chief of the Filing Department visits each department which has outstanding letters, and ensures that any letters which have not been passed for filing are being held up for reasonable cause and that they have not been mislaid. Thus, letters are easily "tracked," and those which are immediately dealt with have very little time spent on them, so far as records are concerned.

Letters Received Books.

Although the system described is economical both of time and labour and can safely be adopted by the majority of business houses, Government Departments, banks, and some conservative professional and business concerns still prefer to record details of the inward mail in a *Letters Received Book.* This book is ruled to show the date of receipt, serial number of each letter, the name of the sender, a brief note of the subject-matter, to whom forwarded for attention, and the date and nature of the reply. In the case of lost or mislaid correspondence, the matter is more easily remedied, because the name of the particular correspondent and the subject-matter of the letter are available from the Letters Received Book. Moreover, by scrutinising this book, the secretary or manager is able quickly and readily to obtain a general idea of the amount and nature of the correspondence over a period of time.

Distribution of Correspondence.

The correspondence of a large office may usually be classified as follows :—

(1) *Personal letters.*—These should be discouraged and a request placed on the company's notepaper that all communications should be addressed to the company and not to individuals.

(2) *Orders.*—These are passed to the sales manager or order clerk.

(3) *Letters on technical matters.*—These will usually be handed to a works manager or director.

(4) *Replies to previous letters.*—These are distributed to the departmental managers or clerks familiar with the matter, as indicated by the reference shown on the communication.

(5) *Letters enclosing remittances.*—These are passed to the cashier, with the remittance enclosed, and it is desirable that the person opening the letters should pin all cheques to the relative correspondence.

(6) *Invoices, statements, receipts, etc.*—These are passed on to the accountant.

(7) *Complaints and enquiries.*—These should be handed to the departmental manager concerned, or be dealt with by the chief correspondent. It is advisable that all complaints, together with copies of replies thereto, be submitted to the secretary or a director, in order that measures may be taken to avoid repetition.

(8) *General correspondence, agreements, etc.*—General correspondence is dealt with by the secretary, either on his own responsibility or after consultation with the Directors. He will preserve all important enclosures, *e.g.*, agreements, in his safe.

(9) *Letters re share capital, transfers, etc.*—These are handed to the secretary or registrar, for the necessary action.

Circulation of Correspondence and Documents.

In nearly all large offices it is found necessary to institute some sort of internal "mail." Work of various kinds has to be sent from one department to another, and it would obviously be impossible for each manager and clerk to walk round distributing correspondence with which he has dealt. A system is therefore adopted whereby each person has on his desk an "inwards" tray and an "outwards" tray. An office boy or girl is detailed to make regular collections of documents, etc., from all "outward" trays, and to sort out and distribute them into the "inwards" trays. For this purpose it is usual to indorse on each document the names of the persons who are to receive it. As each person completes his part of the work he writes his initials through his name and places the work on his outwards tray.

Incomplete Enclosures.

When a remittance, or part of a remittance, has been omitted by a correspondent, the head of the Postal Department initials a note to that effect on the letter. The correspondent should, of course, be notified immediately.

Care should be taken when envelopes are opened to avoid mutilating the contents, and to ensure that all the enclosures are duly removed. The best safeguard against an oversight of

this description is to have all envelopes slit in such a manner that they open out flat, *i.e.*, by cutting three sides of each—machines are obtainable which automatically open all sizes of envelopes. Some firms make a point of preserving the envelopes of each day's mail until the following day, in case queries arise, but this is not generally necessary although it is usually desirable to preserve all *registered* envelopes for a short period.

Outward Correspondence : Stereotyped Replies.

The system of designing stereotyped replies to letters of the same class saves much time, provided care is taken not to carry the system too far. The incoming letter is marked with the number of the reply to be sent, and is passed on to a typist to be dealt with at once. Such letters may be typed separately, or they may be printed by means of a duplicating machine (see Chapter 13), and the names and addresses "matched in" afterwards.

The use of "form paragraphs" is an improvement on the stereotyped reply system. Paragraphs are drafted to cover regular matters of routine, and as each incoming letter is dealt with, it is marked with the numbers of the paragraphs to be sent in the reply, *e.g.*, a letter may be fully answered by writing on it 1/17, 3/9, 4/1, 8/12, and leaving the typist to copy out paragraphs from the so-called "Form Book" or "Paragraph Book." With continual use the paragraphs will be memorised, and the correct numbers written almost automatically.

All paragraphs should be classified, *e.g.*, into (1) acknowledgments, (2) attention drawn to particular lines, (3) thanks for order, (4) reasons for delay in delivery, . . . (8) closing paragraph. Thus the reply indicated above may consist of No. 17 acknowledgment, No. 9 style of thanks for order, No. 1 reason for delayed delivery, and No. 12 closing paragraph.

Correspondence in Suspense.

Correspondence that is still in progress should be kept in a *Suspense File*, for which purpose a small vertical file is sufficient. It should be provided with guide cards headed with the names of the months, and 31 guides numbered 1 to 31. At the beginning of each month, the guide card bearing the name of that month is inserted at the front of the file, and behind it are arranged guides representing the number of days in that particular month. On the second day of the month the guide card for the following month is inserted at the back of the file, and guide No. 1 is taken from the front and placed behind it. This procedure is repeated on subsequent days of the month, so that, as the current month expires, the guide card for the following month is gradually brought to the front of the file.

The file is referred to daily. Thus, if a letter is written to

which a reply is expected to arrive by the 8th August, a copy of the letter will be inserted behind the guide card headed August, after the eighth guide. When the 8th August arrives, the suspense file is referred to and, if no reply has been received, the copy will be found there. A reminder is thereupon sent and a copy of the reminder is inserted in the folder for, say, the twelfth. Notes can also be placed in these folders to remind the clerk of any work that should receive attention on any particular day. This system may also be adapted for "follow-up" work (see p. 140).

Completed Correspondence.

Completed correspondence should be sent with the copies to the Filing Department. There it is handed over to the filing clerk responsible for the division concerned, who sorts the letters, preferably into specially arranged pigeon-holes, and files them in their respective places.

Where the system of symbolic numbering is in use, the numbers will have been inserted on all outgoing correspondence by the person responsible for the letter concerned—usually the number will be incorporated in the reference at the top of the carbon copy. It is, of course, extremely important that the filing staff should pay careful regard to their numbers, and file away the correspondence in strict accordance therewith.

Secretarial Correspondence.

As a rule, this is largely of a private nature, *e.g.*, relating to staff, investments, shareholders and so on, and is usually filed separately by the secretarial staff.

The Despatch of Correspondence.

Outgoing correspondence should be sent from the respective departments in desk baskets or boxes, or in portfolios, and should be handed to the postal clerk responsible for the particular division. The letters are then appropriately folded. The letters for *regular* correspondents are sorted into special pigeon-holes in which *printed* envelopes have previously been placed. The general letters for the day's post should be inserted in the accompanying typed envelopes and sealed as soon as they are received from the various departments, but not until the last batch of letters is available should the correspondence in the special pigeon-holes be finally dealt with. In this way it is possible to avoid the wasteful expense of sending two or more separate envelopes to the same correspondent.

It is obviously important to keep a strict record of all stamps used, and, in the absence of stamping or franking machines—see Chapter 13—to have this record checked by the secretary or some other responsible official at irregular intervals, to ensure

against petty pilfering. Where the evening mail is heavy, arrangements may be made with the Post Office for its daily collection at regular intervals. As a rule, the Secretarial Department attends to the despatch of its own letters.

As far as possible the Despatch Department must be kept abreast of its work. Overtime should be the exception rather than the rule, as not only is this expensive but also the haste to complete the work often leads to mixed enclosures, while important letters may miss the post.

Enclosures.

Where a letter is to be accompanied by other matter, such as an invoice, a bill of lading, a cheque or a catalogue, it is essential to ensure that all the matter is included, and, what is more important, that the *correct* enclosures are inserted. This may be achieved by the use of adhesive numbered labels. These are obtainable in pads, each label being perforated into three parts with the same number on each part; one part is attached to the letter at the foot, one to the envelope and one to the document. It is part of the duty of the postal staff to ensure that all envelopes marked with an enclosure label contain both the letter and the document having the same numbered labels.

Window Envelopes.

Transparent and "window" envelopes are useful time-savers, inasmuch as they obviate the need for addressing envelopes, the letters to be enclosed being so folded that the name and address of the recipient typed on the letter appear through the transparency. Transparent envelopes are not accepted by the Post Office for foreign and colonial post, but where only the *panel* in an envelope is transparent, no objection is raised, provided that: (1) the transparency is sufficient for the address to be perfectly legible, even in artificial light; (2) the transparent panel forms an integral part of the envelope, is parallel to the longest side, does not interfere with the application of the date stamp and will take writing.

FILING

Filing is the storing of letters, papers and documents so that they can be readily found when required. To achieve this it is necessary to adopt one of the many systems which are available, and, what is even more important, to adhere rigidly to the system adopted.

Docketing.

This is an old-fashioned method, but it is still used in a few professional and small commercial offices. A nest of pigeon-

holes is provided, some labelled alphabetically for letters, one for invoices, one for orders and so on. Letters to be filed are folded to a uniform size, and on the outside of each is written a brief description of the contents, called a "docket," of which the following is an example :—

Specimen Docket.

Name . . .	*John Hawkins Ltd.*
Brief address (sometimes omitted)	. *Union St., Hull.*
Date . . .	. *23rd February 19...*
Subject . . .	. *Acknowledging receipt of order No. S/217.*

Invoices and receipts are always pigeon-holed separately from other papers, and the docket in such cases should always include a note of the amount of money involved.

When the docketing for the day is completed, the documents are distributed to their respective pigeon-holes. The pigeon-holes are cleared once a month, or once a quarter, or at other convenient intervals, and the contents of each are sorted alphabetically and neatly bundled with a label outside. The bundles are then put away in boxes, which are also labelled. This system would be extremely cumbersome in any office dealing with much correspondence, but it was one of the earliest methods of keeping letters and business documents in an orderly way for future reference.

Flat or Horizontal Filing.

This is a more modern system, and there are two leading methods :—

1. The Loose-Sheet System.—In its earliest form this consists of a box-like contrivance with a lid and a hinged side. An alphabetical or numerical index is marked on stiff paper sheets, which are arranged in order in the inside of the box, and the letters to be filed are placed between the leaves of this index, below the figure or letter to which they belong. These *box files*, as they are called, are still in use in many offices, chiefly for filing documents which are frequently referred to, *e.g.*, catalogues and bills of lading. Drawers have been introduced as an improvement on boxes, and springs are now used to hold down the letters so that they shall not fall from the drawer.

2. The Lever-Arch System.—The principle of this system, an example of which is the Shannon file, is that the papers are pierced by a special punch with two holes to enable them to be threaded on to two projecting spikes (see Figs. 2 and 3). At the back of the spikes and fitting tightly over their points are two arches which swivel sideways to allow additional papers to

be added. If the papers have to be inserted in the middle of those already on the file, the papers on the top of the file can be passed over the arches on to the standards at the back; then the arches are turned sideways, the new papers are placed on the front spikes, the arches are turned back into position and

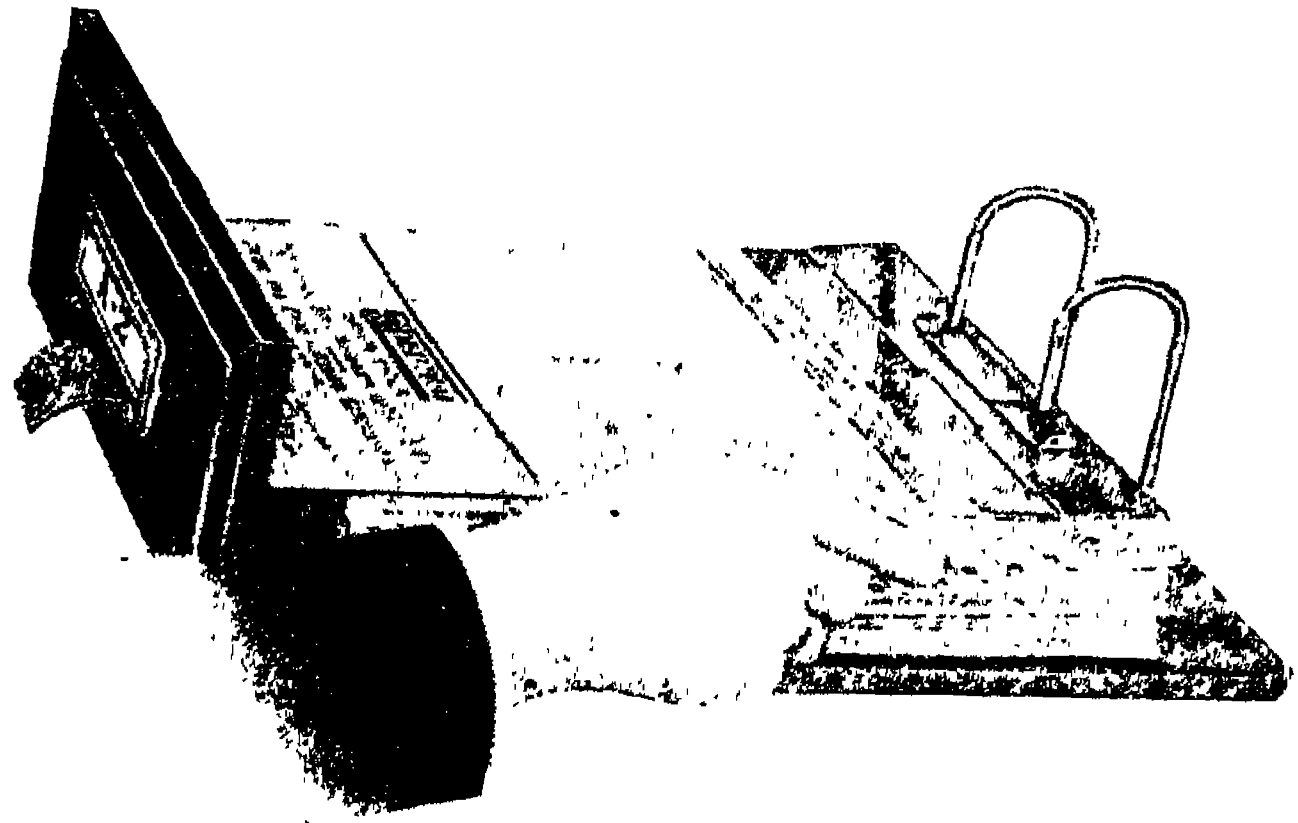


Fig. 2.—Shannon Horizontal File.

the top part of the file of letters is passed back over the arch into its proper position (see Fig. 3). By this means, also, any particular document can be removed temporarily from the file and replaced without difficulty.

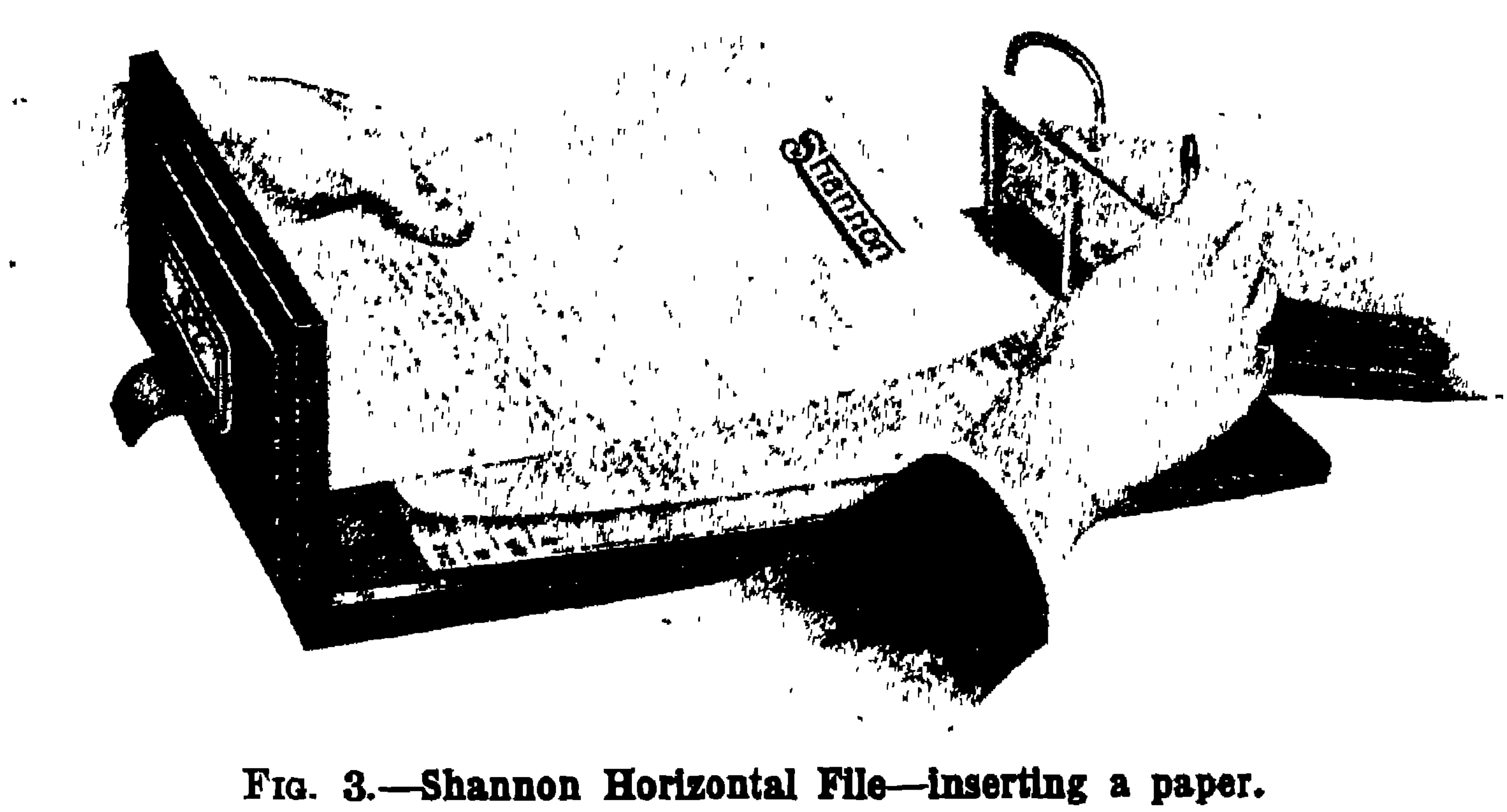


Fig. 3.—Shannon Horizontal File—inserting a paper.

This system possesses the advantages that :—

(a) The letters cannot get out of order, as they are fixed on the arch, each in its place.

(b) Letters can be referred to without being removed, by turning all those above them back over the arch. This eliminates any possibility of misplacement when

letters are taken from, and then replaced on, the file Any letter may, however, be removed for reference.

(c) A file drawer may be inverted or accidentally dropped without any fear of mixing the letters, as the arches retain them in position.

Vertical Filing.

This is an arrangement whereby papers are filed in upright folders, kept in alphabetical or numerical order in suitably designed drawers. The drawers are generally about 20 inches from back to front and are made in various sizes, the commonest being quarto (to hold quarto sheets set up on their longer edge) and foolscap. Each drawer is fitted with an "expander" (usually a wooden block or piece of metal) which slides backwards or forwards in the drawer and holds up the folders, however few or many the drawer may contain (see Fig. 4).

A set of index or guide cards made of heavy manilla paper with projecting tabs divides the folders into sections, and the folders themselves generally have tabs on which may be marked a name, letter or number.

Each folder consists of a piece of stout paper folded in the middle so as to form a container for papers, and on the folder itself or on a tab attached thereto is typed the name or reference number of each correspondent, client or customer in the group for which the file is used.

Stolzenberg Files.

This is a type of file used for correspondence or documents which it is desired to secure together firmly and to keep in strict order, as, for example, documents relating to a special subject or of permanent value. The file consists of a piece of folded manilla paper, near the hinge of which a piece of metal tape is fixed having the two ends free. These ends form the "pillars" upon which the documents are filed by means of suitably punched holes. A metal shield, also with suitably punched holes, is threaded on the "pillars," and, when these are then bent over in opposite directions and held firm by small slides on the shield, they keep the documents securely in position.

Classification of Files.

No filing system can possibly be of much use unless it is accompanied by an effective method of classification. There are several arrangements in common use for this purpose :—

Direct Alphabetic Classification.—The folder of each particular subject or correspondent is placed behind a guide card bearing on its tab the letter corresponding with the initial

letter of the name of that subject or correspondent. Thus the names—

Mr. T. Bernard,	Benns, Sons & Benns,
The Bolt & Axle Company,	Burberrys Limited,
Joseph Barnard Ltd.,	James Binns, Esq.,

will go behind the " B " guide, but the order in which these folders are placed in relation to one another may be either strict alphabetic order or vowel order. In the latter case the order will be determined by the first vowel succeeding the initial B, the vowels being taken in the normal order A, E, I, O, U, with Y, which is treated as an additional vowel. On this principle the list given above would be rearranged thus :—

Barnard, Joseph, Ltd.	B – a	Binns, James, Esq.,	B – i
Benns, Sons & Benns	B – e – n	Bolt & Axle Co., The	B – o
Bernard, Mr. T.	B – e – r	Burberrys Limited	B – u

Where the correspondence is large, it is a good plan to have forty guide cards labelled according to what is called the " forty-division system "—A, BA, BE–BI, BL–BO, etc.

For isolated letters and occasional correspondents it is usual to employ a miscellaneous folder which is kept at the back of the drawer. If there are many such incidental correspondents, a miscellaneous folder for each letter guide should be used, and, if the letters from any one correspondent in this folder show signs of becoming numerous, they should be removed to a separate folder and filed in correct position according to the name of the correspondent.

NUMERICAL CLASSIFICATION.—For firms having a very large number of correspondents the numerical system of filing is probably the best, because it avoids the confusion which might otherwise arise when many correspondents have the same, or nearly the same, name.

In numerical systems each correspondent is allotted a number, and that number appears on the tab of the correspondent's folder or folders, which are divided into groups by distinctively coloured guide cards tabbed 10, 20, 30, 40, etc., or 20, 40, 60, 80, etc., to facilitate reference.

Clearly a numerical file cannot be of great use without a separate index, as it is impossible for any filing clerk to remember the number of every correspondent. Accordingly, an index of one of several available types is provided, though the most usual is the *card index*. Small cards (about 5 in. by 3 in.) are made out for every correspondent who has a folder, and these are arranged in a drawer behind alphabetical guides. The cards may be used to store a fund of information about the correspondent ; for example, a customer's card may contain information as to the discounts and limit of credit granted to him, in addition to such details as his name, address and bank

reference. In a prominent place on each card is set the file number. An example may make this clear, and indicate also the value of this system for cross reference purposes.

Suppose "The Automatic Shuttle Co. Ltd." are clients and their file number is 2249. Letters, orders and payments relating to this concern are received from Mr. Smith, its managing director; Mr. Brown, its secretary; Mr. Robinson, its accountant; Mr. Black, its buyer. Perhaps all are filed in the folder of the company, but Mr. Brown may write about other matters also, and a separate folder may be allotted to him. Whether this be so or not, in addition to the card made out for the company, a card may be made out for each of these gentlemen, and on it will be put the number 2249 (the file number of

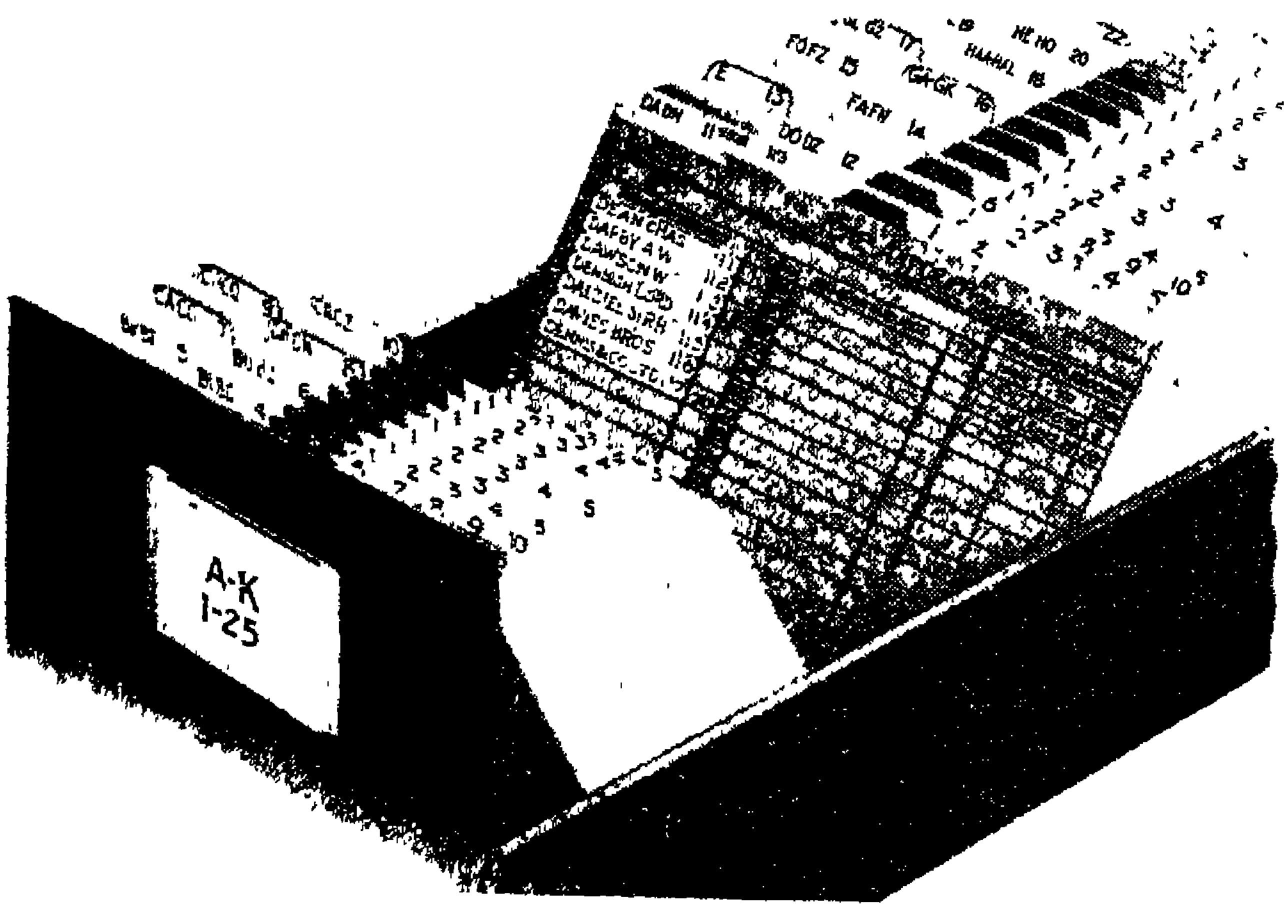


FIG. 4.—Alphabetic-Numerical Vertical File.
(Roneo "Flexa" System.)

the company), as well as the number of any individual file kept for him. By this means the connection between the correspondents is always kept in view.

ALPHABETIC-NUMERICAL SYSTEM.—This is a combination of two systems, as its name suggests, and its special advantage lies in the fact that, while it has the exactness of the numerical system, it does not require a separate card index. Suppose under this system we wish to find the folder of a correspondent, W. Dawson. We open the drawer containing the "DA" section, finding it by reference to the slot label on the front. Then we turn at once to the alphabetic guide "DA–DN" (see Fig. 4), and run down the names on the index it contains.

We find W. Dawson's name with the reference 11/3 alongside it. The "11" refers to the particular section "DA–DN" to facilitate replacement of the folder, while the "3" tells us that W. Dawson's folder is No. 3 in the section behind the

alphabetic guide, and we can turn to it at once. The great advantage of this system is that, whilst new folders can be added as easily as under the numerical system, reference is more readily made.

GEOGRAPHICAL CLASSIFICATION.—This is merely a variation of either the alphabetic or numerical systems adapted geographically to meet the requirements of a particular business. For example, the business might be that of multiple-shop retailers, having three hundred branches in different towns, the managers of each of which is constantly in correspondence with head office. At the head office the filing may be divided into four main sections—England, Scotland, Wales and Ireland. This would be done by drawer labels. Then each drawer, or set of drawers, could be divided by coloured guides, tabbed on the extreme left with the name of the county, and arranged alphabetically. Guides of a different colour, and tabbed on the extreme right with the names of towns, could be arranged alphabetically behind each of the " county " guides. Behind these a folder for each shop in the particular town could be placed, bearing a numerical tab.

This system is useful also for concerns where there are many travellers, each covering a special district.

SUBJECT CLASSIFICATION.—Where the subject is of more importance than the name of the correspondent, it is useful to file all papers behind alphabetically arranged subject guides, using tabbed folders for subdivisions of the subject or individual correspondents.

Railway companies use a simple system of vertical subject filing which involves a minimum of expenditure on equipment. Each letter received is stamped with the date of receipt and a consecutive symbolic number, while particulars thereof are entered in a Letters Received Book, as previously described. After having been dealt with, the letters are arranged in numerical order and placed on edge in a drawer, with the numbers at the right-hand top corner. Periodically the letters are taken from the drawers and are arranged in bundles on which the date and serial numbers are indorsed.

Every reply sent out and every subsequent letter received which is connected with the same matter is indorsed with a reference number indicating the department responsible, the number of the copy of the reply in the letter book, and the number of the original letter. For example, Reference No. $B1/\frac{5}{234}$ indicates Department B, copy-book No. 1, copy No. 5, and the number of the original letter in the register, 234. All correspondence in connection with any particular subject-matter is fastened together and can be referred to when subsequent negotiations are being conducted. It is essential, of course, that an alphabetical index of correspondents' names should be employed in connection with this system

"Absent" or "Out" Guides.

These are cards of the same size as an ordinary guide or a little taller, and printed with ruled columns.

When a folder is removed for reference, the filing clerk puts an "out" guide in its place and enters in the ruled columns the particulars of the folder removed, the department or person to whom it has been handed, and the date. If the "out" card is a distinctive colour, it will be apparent every time the drawer is opened that the folder is missing. When the folder is returned, the "out" card is removed and a line is drawn through the entry that was made on it.

Rules for Filing.

One person should be responsible for all filing, but that person should have an understudy capable of taking over the duties at a moment's notice. This rule should hold good whether the office is so small that filing is merely part of the duties of a member of the general staff, or so large that twenty filing clerks are kept. New folders should be made out only under the instructions of the responsible person, and all returned folders should be replaced by the person or one of the persons in charge of the filing, and not by anyone who happens to be handy.

The main thing to guard against in filing is putting a paper in the wrong folder, for a misplaced paper may take hours to find again. For this reason it is often a good plan to fasten copies of all replies to letters to the letters they concern.

Centralisation of Filing and Correspondence Staffs.

The question of centralising the correspondence and filing staffs depends upon the particular circumstances, and these should be carefully considered before the system is instituted, for it may not be found suitable to the business concerned.

The advantages of centralisation are that (*a*) the work is evenly distributed; (*b*) a saving in salaries and time is effected; (*c*) there is a saving in office accommodation; (*d*) supervision is facilitated.

There are, however, disadvantages in that typists are not familiar with the dictator or with the matter dictated, and that the system destroys privacy. (Private offices may, however, retain their typists.)

If a central filing system is adopted, the prompt return of matter borrowed from the files should be insisted upon.

It is desirable, too, to ensure that throughout the office every possible device is applied with a view to saving filing space. Thin "flimsy" should be used for carbon copies; *both sides* of the flimsy should be used for two-page letters; bank pins are preferable to clips or brass fasteners; useless copies

should be avoided, *e.g.*, of form letters or paragraph letters, and no unimportant items should be permanently filed. In the latter connection, arrangements should be made for all files to be reviewed periodically so that obsolete or useless matter can be destroyed.

INDEXING

The principal types of indexes are the Ordinary Index, the Vowel Index and the Card Index.

The Ordinary Index.

This consists of a set of pages, each headed with a letter of the alphabet. The names to be indexed are recorded in a list on the page indicated by the initial letter, the folio being shown horizontally against the names. The ordinary index may be—

(*a*) FIXED—*i.e.*, bound in the front of a book, such as a letter book or ledger;

(*b*) LOOSE—*i.e.*, bound as a separate volume, or, when used with a loose-leaf ledger, inserted in the ledger before each alphabetical section.

(*c*) EXTENDED—*i.e.*, bound in the book, but, to facilitate reference, so arranged as to open outside the area of the book.

(*d*) SELF-INDEXING—*i.e.*, where the leaves of a book are cut to receive the indicative letter.

The Vowel Index.

This is an extension of the ordinary index, in which each page is divided into six columns, headed A, E, I, O, U and Y, respectively. The names are entered on the page having the correct initial letter in the column indicated by the first vowel (or Y) occurring after the initial letter of the surname.

The index is chiefly used when it is required to record many names, and when only one reference is required in respect of each.

The Card Index.

The card index, which has been explained briefly in connection with filing, can be extended to other uses. Records of almost any business activity can be usefully and conveniently kept on cards which can be arranged for immediate reference. The following are examples of the uses to which a card index can be put:—

(*a*) An index of *customers* showing name, address, buyer's name, credit terms, travellers who call, orders given, and so forth.

(*b*) An index of all *quotations* given, so that comparisons may be made at a moment's notice when fresh quotations are being prepared

(c) An index of *stock or stores*, showing all additions and removals (whether for sale or use). This index can be so arranged that no stock books are required, and yet the amount of stock sold or on hand of any particular article can be discovered in a few moments.

(d) An index of *employees*, giving full details such as name, address, age, date of appointment, salary or wages, etc. (see Fig. 5).

(e) A "*follow-up*" index can be arranged to ensure that business prospects or overdue accounts shall automatically come up for attention at certain times or at certain intervals of time. This may be achieved by using a "tickler" index with cards marked with the names of each month, and with a card for each day in the month. A note of any matter requiring attention on any given day is made on the card relating to that day. This system, like that described on p. 129, is of considerable utility for reminders, recurring items requiring attention, and so on.

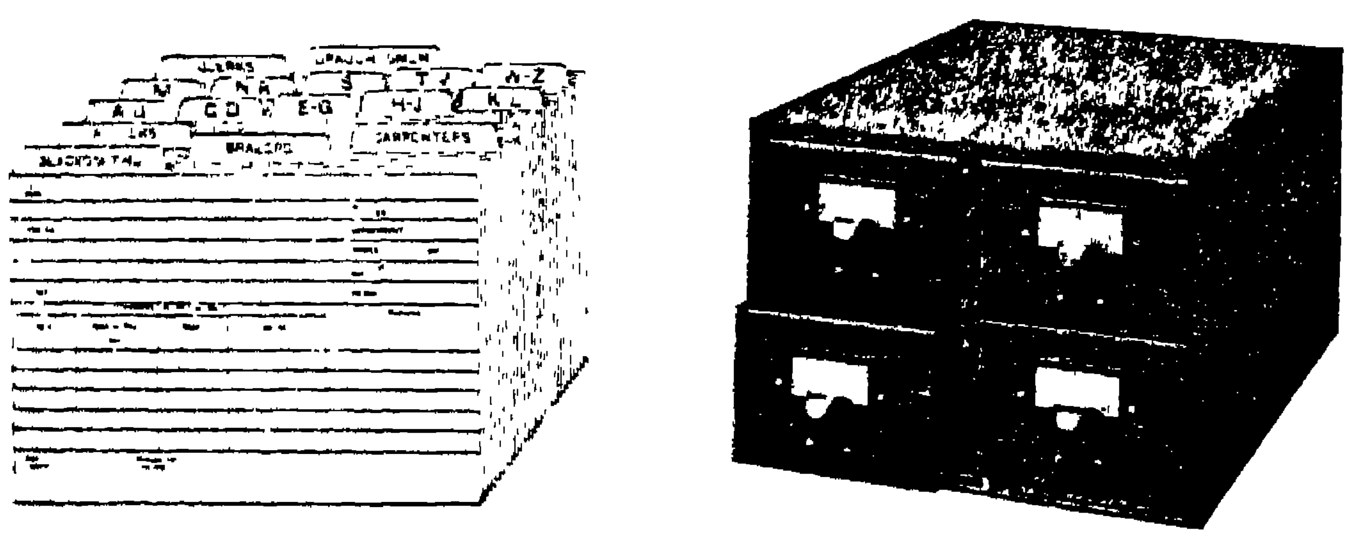


Fig. 5.—Shannon Card Index and Four-Drawer Cabinet.

Another use of cards, suitable for sales follow-ups, is to prepare a separate card for each enquiry, and to "tab" it with a signal-tab (see p. 142). For this purpose the top edge of the card may be divided into 31 "positions," corresponding to the days of the month. On any given day it is a simple matter to remove and attend to all cards bearing a tab for that day.

Card Folio.

In this system, the index cards are filed in a loose-leaf book, several cards on a page, and are held in position by lacings which fit over the four corners of the cards so that the latter can be inserted or removed from the folio by being slightly bent. The advantages are that (a) several cards are visible at one opening; (b) cards can be written on, without removal; (c) the cards are not so easily misfiled or lost as they would be in the ordinary filing cabinet.

The system here outlined is particularly useful for filing National Insurance cards, as the cards can be stamped without removal from the folio.

VISIBLE RECORDING

A system of office records which is nowadays being widely adopted for such matters as Stock, Production, Sales, Purchases

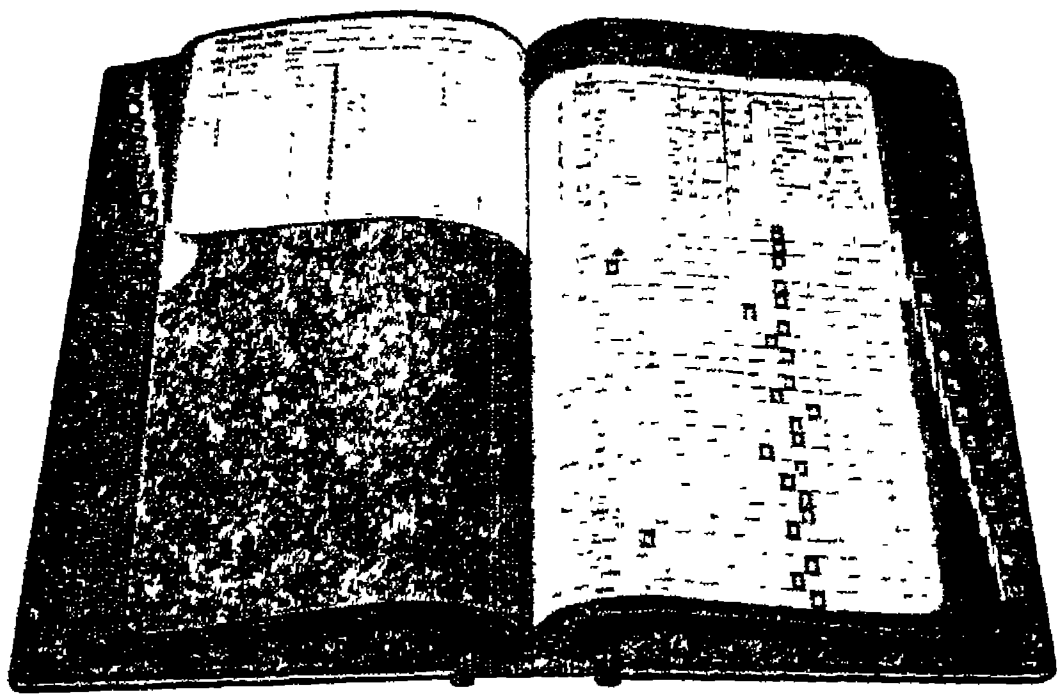


FIG. 6.—The Kalamazoo Visible Loose-Leaf Book.

and Accounts is that known as *visible recording*, the essential feature of which is that suitably ruled cards are attached to holders fitted on metal frames, or made up as loose-leaf book units, in such a way that certain details written on a number

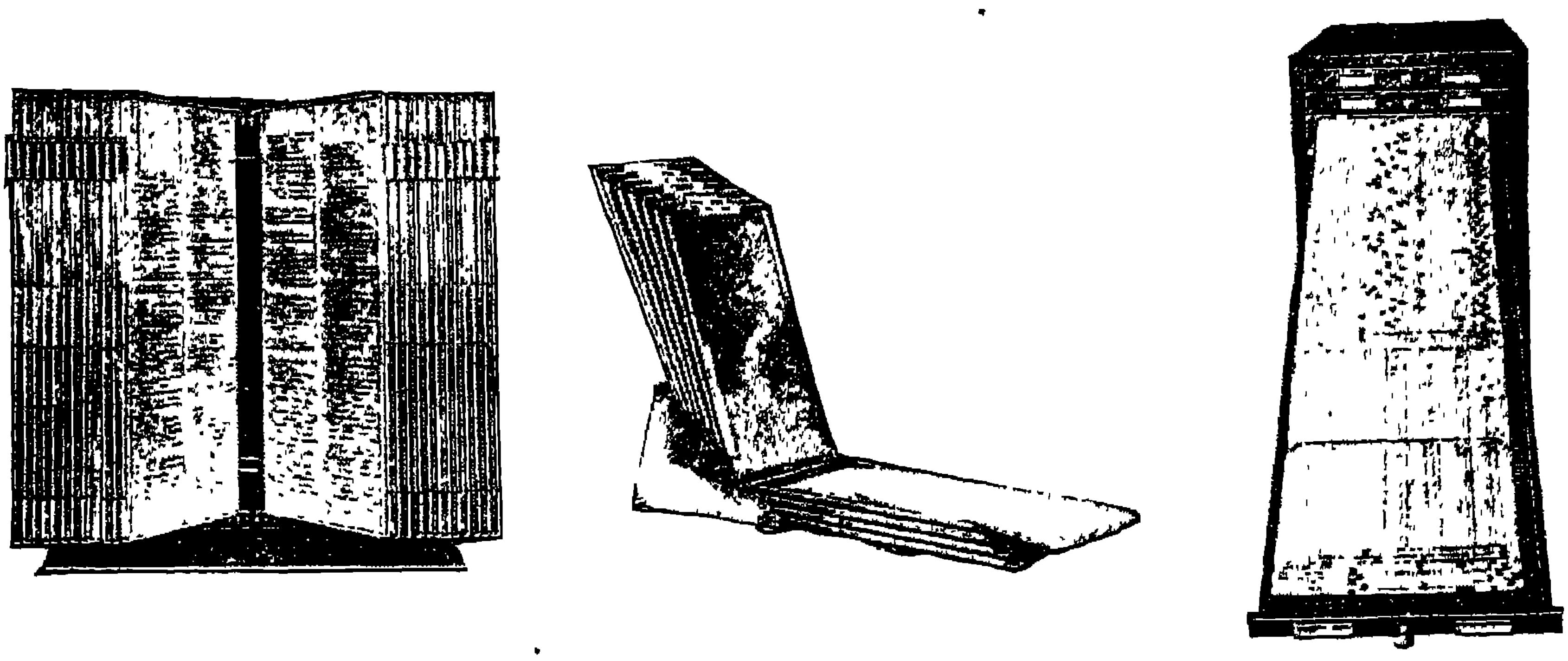


FIG. 7.—Strip-index Rotary Visible Index, Rapid Stack, and Drawer Cabinet Models

of the cards are clearly visible at the same time. References can be made in considerably less time than with the ordinary form of card-holder or cabinet, and entries can be made without removing the cards from the holder, thus eliminating the risks of misfiling or loss.

The frames may be grooved for the reception of cards on

one or both sides, and may be fitted in a variety of ways, *e.g.*, in book form or in a stack, to a sloping stand for desk work, to the wall, to a central pillar around which they revolve, to the switchboard fitting (as for a telephone index), or in steel cabinets (horizontal), out of which the frames move on bearings. Various makes of these visible record systems are available, notably the Kardex, the Strip-index and the Kalamazoo.

One convenient type of a well-known make consists of a stand upon which are hooked metal frames, fitted with grooves, into which the edges of the cards are inserted in such a way that they slightly overlap, and so that the names (and addresses) written on the bottom line of each of a large group of cards are visible at once without moving the cards. Overlapping cards can be easily raised to enable a card underneath to be referred to or written upon. Marginal index or guide tabs may be attached to the frames if desired.

In the Kardex type of visible index the cards or paper sheets are inserted into a pocket made of stout paper, which is hinged and fitted into the index frame as described above.

Visible Strip Indexes.

Indexes of the visible type may be formed by the use of thin board strips for recording information of a fairly permanent nature, which can be accommodated on one or two lines of typewriting. The strips are narrow pieces of pasteboard, $\frac{3}{16}$ in. wide, and length as required, though 6 in. is a favourite and handy size, particularly for typewritten work. These strips are obtainable in belts, and are held together by linen tapes. After the strips have been typed they are separated and fitted into the frames in the order desired, alphabetical, numerical, etc., as the case may be.

Where additions are probable, it is advisable to insert blank space boards at intervals, so that a space board can be removed each time a new name strip is inserted. When the frames are full, further frames may, within limits, be added. Transparent shields may be obtained which entirely cover the strips and protect them from dust or finger marks and prevent them from falling out. The board strips can be had in different colours, and are handy for telephone, stock or ledger indexes, for price lists or for recording addresses of clients or customers.

Signalling Devices.

In order that the visible system shall be of the greatest utility, the use of some safe and rapid method of signalling is essential to enable specific cards to stand out easily from all

the others. Of the various devices in use, the following are the most common :—

(*a*) METAL SIGNALS of different colours which can be attached to the edge of the card in any desired position.
(*b*) CELLULOID STRIPS of various colours, folded over and movable to the right or to the left.
(*c*) OFFSETTING, *i.e.*, moving cards to be signalled slightly to the right or left, so that they extend beyond the others.
(*d*) COLOURED WAFERS which can be stuck on the records and can be moved to various places on the card.

The following are examples of the application of these devices in connection with Ledger Control, Sales Control and Stores Control :—

(*a*) LEDGER CONTROL.
Red signifies—Account long overdue. Action has been taken.
Yellow signifies—Account overdue.
Green signifies—Account clear. O.K.
(*b*) SALES CONTROL.
Red signifies—Customer has closed his account. Efforts must be made to re-open.
Yellow signifies—Customer has not bought for three months. Strong follow-up necessary.
Green signifies—Customer has bought quite recently.
(*c*) STORES CONTROL.
Red signifies—Obsolete stock. Must be realised.
Yellow signifies—Stock getting low. Must be ordered.
Green signifies—Stock up to maximum.

Advantages of Visible Recording.

The most important advantages of visible recording systems are :—

(*a*) *Speed in reference.*—A large number of records are visible at once, with their description and general characteristics.
(*b*) *Speed in posting.*—The account or record affected is instantly identified, and posting takes place much more rapidly than in an ordinary ledger.
(*c*) *Visible control of records.*—The "Signalling" shows at once the essential facts of a series of records, and determines action at the right time and in the right way.
(*d*) *Safety.*—Each card can be referred to or entered upon in its fixed position, and possibilities of misfiling or of loss are thus obviated. Moreover, in the Kardex system, a blank pocket immediately advertises the absence of the relative card or sheet.

WAGES RECORDS

The usual arrangement in respect of wage payment in large concerns is to pay up to Thursday night on the following Saturday. The time cards handed in by the workpeople will show both ordinary time and overtime, with a space at the bottom for deductions. The time worked is added and extended by the office staff, and the necessary deductions are made for such items as Health and Unemployment Insurance. The calculations of the wages sheets may be made by means of adding and listing machines, in which event the names on the lists will usually have been previously printed by means of an addressing machine (see Chapter 13). One clerk should fill in the columns of the sheets from the cards, another should check them, a third should enter the deductions, a fourth should check these, and each process as it is completed should be verified and initialled by the checker. On no account should persons concerned with the cash payments be allowed to make up the wages sheets, except that the actual payer-out may well check the making-up of the amount he pays out.

Precautions should be taken against the entry of " dummies " in the Wages Book, and it is, of course, imperative that the Wages Department should be given immediate advice of alterations in rates of wages, of special payments, or of the engagement and dismissal of employees.

Payment of Wages.

When completed, the wages sheets are passed to the cashier, who summarises the pound notes, ten-shilling notes, silver and copper required for each page. Wages envelopes, if in use, will have been previously addressed, and it is a good idea to have printed envelopes, with a notice that errors will not be admitted after the envelope has been taken away from the pay office. In many factories small tin wages-boxes are in use for this purpose. The entry in the wages sheet, and the envelope or tin each bear the staff number of the employee to whom the wages are handed over in exchange for his card.

STOCK AND STORES RECORDS

Stores Records.

In all classes of business, some form of Stores is necessary; it may be only for stationery, but it may be for the raw material of manufacture. In any case, complete records of stores received and issued should be kept. Although it is desirable that the stock book itself should not be kept in the stock room, adequate records should be kept there in the form of " *Bin-*

cards." These are cards kept in each bin or other receptacle for goods, showing in one column particulars of the quantity of goods *received,* with sufficient details to identify them, and in another column details of goods *handed out* by the storekeeper, who should enter up these details *at the time* he receives or hands out goods. When goods are received the storekeeper should pass to the Purchasing Department (or Counting House) a slip detailing the goods received.

Goods should be handed out from the stock room only on receipt of a duplicate *Requisition Form* bearing the order of a responsible official of the business. The storekeeper should retain one part of the Requisition Form and send the copy to the Purchasing Department. In this way, the bin-cards should always show fairly accurately the quantity of each type of goods actually in stock, while the Purchasing Department will be furnished with the information necessary to maintain its full records of the stock.

A detailed Stock Book or Stock Ledger is kept by the Accounts Department and is entered up from the slips received from the storekeeper, from invoices, and from the duplicate requisition forms referred to above. In many cases this book gives full details, not only of the weight or quantity of goods issued and received, but also of their price.

A check on the accuracy of the stock records is obtained by comparison between the Stock Ledger and the bin-cards, checked, at intervals, by an actual inspection of the stock-on-hand. This system also makes it possible to avoid being " out of stock " of any particular article, for each bin-card can be marked with a " minimum-stock " figure below which stock-on-hand must not be allowed to fall, and, when this point is reached, it is the duty of the storekeeper to warn the Purchasing Department, so that it can proceed to replenish the stock.

Storekeeping.

The maintenance of adequate stores records is essential, in order that adequate stocks shall be maintained, but, however efficient the system, it will be almost useless unless the goods are stored in an orderly and efficient manner.

The position of each article should depend upon its nature. Heavy castings, etc., may be stored in separate bins kept on the floor, whilst light and fragile articles may be kept in lockers or compartments arranged round the walls of the room ; articles susceptible to dampness must be placed in the driest places, whilst fireproof compartments should be provided for inflammable materials.

The receipt and checking of the stores must be reduced to routine. A good system is that whereby particulars of all goods received are entered by the storekeeper in a Goods

Received Book after being checked as to quantity and quality. Any goods rejected are entered in the Goods Rejected Book. The counterfoils from these books are sent to the Purchases Department in order to be checked with the invoice, after which the necessary accounting procedure will be carried out, and the stores ledger written up. Details of stores consumed in relation to particular jobs are obtained from the requisition forms, and incorporated in the costing records.

Classification of Materials.

The classification of materials is essential to make possible some rapid method of reference. It entails, first, the grouping of the materials under certain headings, then the subdivision of the groups into classes, and, finally, the division of the various classes into units.

It is necessary to assign to each unit so classified a distinctive number or mark so that it may be briefly referred to thereby. For instance, it is obviously easier to describe a piece of tubing by a reference or "code" number, such as T/5304296, than to refer to it as "steel tubing, third quality, external diameter 1 inch, bore ¾ inch, and black enamel finish."

The "code" is constructed in this way. "T," of course, stands for tubing, a usual procedure being to use a letter of the alphabet, or a combination of two or more of such letters, to indicate each main group of materials. Next, the first number, 5, indicates the nature of the composition of the tube; 8 might be brass, 2 aluminium, and so on. The fact that this part of the code is given only a single figure indicates that there are not more than 10 divisions in this section. If there were more it would be necessary to use double figures, in which case steel would be indicated as 05. The next figure, 3, gives the quality of the tubing. Then comes a two-figure group, 04, which describes the diameter of the tubing, and, from the fact that two figures are necessary for this purpose, it may be deduced that the number of items in this group is more than 10. The following two figures, 29, refer to the bore of the tubing. Finally, there is a single figure group, in this case 6, which describes the finish—black enamel.

Stocktaking.

The responsibility for arranging the periodical stocktaking may fall upon the secretary, but in a large concern the Stores Department itself undertakes this work, and the calculations are afterwards checked by the auditors. In a manufacturing concern the works manager is responsible. A specimen set of instructions for stocktaking is as follows:—

(a) Stocktaking will begin two days before, and will be completed by, the close of the financial year.

(*b*) All stock will be entered on sheets issued for the purpose. The greatest care must be taken to ensure that the lists returned are absolutely accurate, otherwise the whole of the bookkeeping for the present year and future years will be unreliable.

(*c*) The manager of each department will be in charge of, and wholly responsible for, the lists returned by his staff.

(*d*) All goods of the same kind are to be put together as far as possible, and boxes and parcels are to be examined to see that they contain the correct quantity ; if not, the number or weight contained therein is to be distinctly marked on the cover or box. Everything is to be counted, weighed or otherwise measured.

(*e*) All stationery, packing, fuel, etc., is to be listed.

(*f*) Goods on approval and consignment are to be set out in separate lists.

(*g*) When stock is actually being taken, a start should be made at one end of the room, the stocktaker working straight forward to ensure that nothing is missed.

(*h*) If any goods are moved *during* the stocktaking and *after* having been listed, a blue form, which will be supplied, must be immediately filled in with correct particulars, and taken to the manager, who will make the necessary adjustments on his list.

(*i*) Every column on the stocktaking form must be filled in, with the exception of the columns for price and value.

(*j*) At the close of business on the 31st December, or as the case may be, all lists will be taken to the office for completion, the prices being inserted under the supervision of the accountant.

(*k*) The prices to be inserted are " cost " or " market," whichever is the lower, allowance being made for all trade discounts.

(*l*) It must be seen that all invoices in respect of goods which have arrived within the last few days of the year have been received and passed through the books.

(*m*) After the insertion of prices, the office staff will proceed to calculate the value of the stock, the figures being extended into the last column on the lists and then totalled. The greatest care is necessary in this operation, and all figures should be checked, each sheet being signed at the foot by both clerks engaged.

(*n*) The stock-in-hand must then be compared with the Stock Book, and differences listed.

(*o*) A meeting of managers to discuss matters arising out of the stocktaking will be held at a time to be notified later.

Stock Sheets.

When stock is being taken it is an advantage to use loose sheets (which can be bound later) and to classify these according to the account to which the stock is to be credited. Thus stationery stocks, works stores, material "A," material "B," etc., will each be summarised or entered on one page, or in one division, while these pages can in turn be summarised, so as to furnish a figure of total stock for balance sheet purposes.

Another method is to have the items printed or typed in the Stock Book in alphabetical order, and to enter, in columns provided for the purpose, details of (*a*) the departments holding the stock; (*b*) the total stock of each item so held; (*c*) the cost price of each item; and (*d*) the value for stocktaking purposes.

Valuation of Stocks.

The general basis usually adopted for the valuation of stock is cost or market price, whichever is the lower, although there is no objection to the addition of a fair proportion of establishment charges in the case of uncompleted contracts or work in progress. Where commodities require to mature over a lengthy period, *e.g.*, wood and wines, it is customary to add to the cost price a certain percentage representing interest on the capital thus lying idle. Care should be taken that the price inserted in the stock sheets is that of the denomination expressed, *e.g.*, per lb. or per cwt. The comparison of stock as taken and as given by the stock records is important, and all except minor differences should be investigated.

Stock in bonded warehouses, cold storage, railway warehouses, etc., should be evidenced by a certificate from the warehouse-keepers, and the amounts included in the stock record.

Care should be taken that all goods included in stock have been passed through the books of account, and, conversely, that all goods which have been passed through the accounts and which have not been consumed are taken into stock. In the same way, where goods have been sold and the necessary entries made in the books, these must not be included in the stock even though the goods remain in the warehouse.

A Stock Certificate, which is subsequently handed to the auditors, should be signed by the managing director, and, in some cases, it will be advisable to indicate that depreciated stock has been included at a depreciated value or that it has been ignored.

QUESTIONS BEARING ON CHAPTER 12

1. Describe the system of " Vowel Indexing " and submit twelve names commencing with the letter A indexed in accordance therewith. (*C.A., Inter.*)

2. Outline a system for the filing of inward and outward correspondence in an incorporated accountant's office where the practice embraces—(*a*) General auditing and accountancy work, including taxation ; (*b*) Secretaryships ; and (*c*) Insolvency and Receiverships. (*S.A.A., Inter.*)

3. Explain in detail a system of time records suitable for an incorporated accountant's office, and show how the Time Ledger is balanced. Give specimen rulings of the necessary books. (*S.A.A., Inter.*)

4. Draft a set of rules for the organisation of the office of a firm of chartered accountants, dealing with registering and filing ingoing and outgoing correspondence, keeping of diaries, filing and indexing of clients' papers, and any other matters incidental to a well-run office. (*C.A., Inter.*)

5. The business conducted by X. Y. & Co entails considerable correspondence, and the invoices and vouchers are numerous. You have been requested to recommend a system of filing the above-mentioned papers. Submit your report. (*C.A., Inter.*)

6. The correspondence of the day includes :—
   (*a*) Offers of goods ;
   (*b*) Complaints ;
   (*c*) Orders for goods ;
   (*d*) Invoices for goods purchased ;
   (*e*) Inquiries.

How should the correspondence department deal with these ? (*London Chamber of Commerce, Certif.*)

7. The following appears at the head of a commercial letter :—

WHEN REPLYING PLEASE QUOTE :—
C. X. L/198.

Explain its meaning and purpose. (*London Chamber of Commerce, Certif.*)

8. Explain briefly what a Card Index is, and name some purposes for which a Card Index is suitable. What is the outstanding advantage of the Card form of Index over the Book form. (*London Chamber of Commerce, Certif.*)

9. Describe a good method of indexing a Letter Book. (*London Chamber of Commerce, Certif.*)

CHAPTER 13

MECHANICAL AIDS TO BUSINESS EFFICIENCY

MANY processes of modern business are more quickly and more efficiently carried out by machinery than by hand, especially such repetitive operations as making copies of documents, multiplying documents of which many copies are required, affixing postage stamps, opening and sealing envelopes, addressing envelopes where frequent communications are sent to the same addressee, or making stereotyped calculations, such as adding, subtracting, multiplying and dividing. It has been well said that an office which is below par can be the most wasteful department of any business. For this reason, there is an increasing tendency to use labour-saving machinery and appliances in offices, especially in large offices, for the adoption of mechanical devices not only makes for greater efficiency and for economy, but also releases human labour for less monotonous, less tiresome, and more important tasks.

The Typewriter.

This, the most familiar of all office contrivances, cannot be expected to yield good work unless it is used intelligently and carefully ; yet good typewriting, though an essential of modern business, is only too frequently absent even in businesses which are otherwise noteworthy for their efficiency. The efficient typist understands her machine thoroughly, knows every device and feature, and keeps it clean and in good condition. Makers of all machines are always ready to supply a book of instructions and to demonstrate the proper way of cleaning, oiling and generally keeping the machinery in a reasonable state of repair. Moreover, it is always possible to enter into a service agreement with the makers or with specialist firms by which all machines in an office are regularly cleaned and overhauled by skilled mechanics.

Dictaphone and Ediphone.

The Dictaphone and Ediphone are machines which are becoming increasingly popular as a means of saving time and labour in dictating replies to correspondence. The principle in each case is that of a phonograph worked by a small electric motor which is set in motion when the mouthpiece is removed from its holder. To operate the machine, a lever is moved into the position "To Dictate," and the message to be tran-

scribed—whether a letter, speech, story or an extract from a document—is dictated into the mouthpiece. So long as pressure is kept on a key attached to the mouthpiece, the sounds as they are spoken are recorded on a revolving wax cylinder, but, when the pressure is released, the cylinder ceases to revolve. If it is desired to hear what has been dictated, the lever is moved backwards to the " Listen " position and the mouthpiece placed to the ear. Any necessary alterations are made on a dictation slip which bears a numbered scale corresponding to a similar scale on the carriage of the dictaphone. In this way the typist is warned of any corrections. The cylinders may be used many times by simply shaving off their surfaces in a special machine.

The typist receives the " recorded " cylinder and places it on a *transcribing machine*, which differs slightly from the dictating set, and by means of earphones and a system of control, receives the dictation at her own speed and time. The dictaphone has the advantages that (*a*) the dictator as well as the typist works at his or her own speed and time ; (*b*) shorthand notes are not required—there is, therefore, no difficulty of transcription and no time lost in compilation or dictation ; (*c*) work can be centralised and more evenly distributed ; (*d*) fewer typists are required.

For secretaries, partners, managers or others who are subject to frequent interruptions (as for attending board-meetings and for interviews) dictation by the foregoing method is especially advantageous, as such persons are unable to keep a special time for the dictation of letters, and it is much more convenient for them to be able to dictate during the " off " moments of the day's work.

An adaptation of the dictaphone can now be obtained which records telephone conversations.

The Totaliser.

By attaching this appliance to the rail above the type basket of typewriters of such make as the Remington, it is possible to ascertain the total of all figures typed upon a certain portion of the platen. The Totaliser shows the total to the operator, who then reads the figures and types them at the foot of those already typed. This device is extremely useful for ascertaining the totals of invoices as they are being typed, and affords a check on the work of the invoice clerk. (See Fig. 20.)

COPYING PROCESSES

The most usual way of making a copy of outgoing letters is to insert a carbon sheet and a blank sheet in position behind the letter as it is typed, so that an exact facsimile of the letter (other than the signature) is obtained on the blank sheet. For

this purpose some firms have a thin piece of paper (known as a "flimsy") lightly gummed to the top and at the back of each sheet of letter heading, so that all the typist has to do to obtain a copy of any letter typed is to insert a piece of carbon between the two sheets. When the letter is typed, the flimsy and letter are pulled apart without difficulty. Letter-heads of this kind have the obvious advantages of preventing the carbon sheet from slipping in the machine, and of enabling the typist easily to adjust sheets so attached when they are in the machine.

It frequently happens that a number of carbon copies of one single letter are required. Some typewriters will produce five or six readable copies, but, where more than four copies are required, a specially hardened roller is usually necessary.

Whenever carbon copies are taken in this way, each carbon copy should be sent with the original letter to the person responsible for signing it. This person then can initial the copies and take responsibility for their accuracy, particularly in respect of minor inked-in alterations which otherwise may be made in the original but not in the copy. When the carbon copies come back for filing, they should be attached to the letters to which they relate.

Copying by means of carbons has been adapted in various ways to suit different purposes. One of the most useful adaptations is the Carbotyp.

The Carbotyp.

This is the arrangement in "sets" of several sheets (original and duplicates) for typing purposes, the sheets being bound together at the top and having a fine perforation about half an inch from the binding, so that when a set has been typed (at one typing) the sheets can be easily separated by tearing them away.

The "sets" may be made up for a variety of uses. For ordinary correspondence, a sheet of the concern's notepaper may be made up in a set with two or more "flimsies" for carbon copies; for invoicing, the Invoice itself may be bound up with sheets to serve as the Day-book Copy, the Warehouse Advice, the Delivery Note, and so on.

The method has the following advantages over loose sheets :—

(a) It obviates difficulties in arranging sets in the typewriter.
(b) It simplifies the insertion of carbons.
(c) It secures perfect registration—the carbon copies appear in the same relative positions as the original.
(d) It lessens the risk that one copy of the set may be omitted.
(e) The sheets in each set may be arranged in various colours to facilitate distribution.

Furthermore, there is a saving of time and more expensive labour, in that the carbons may be inserted in the sets by juniors at the beginning of each day, while, in those cases where

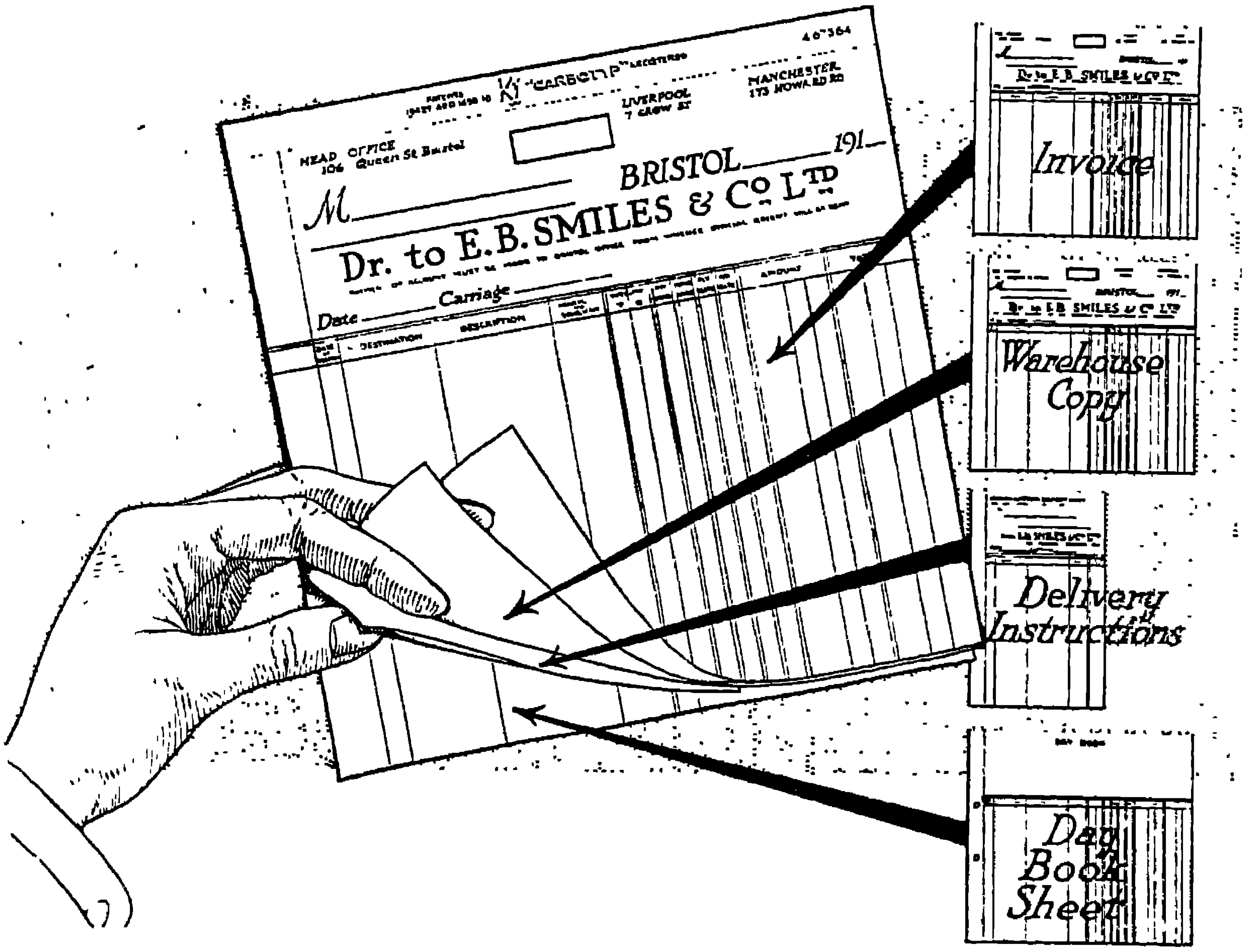


FIG. 8.—The Carbotyp—showing arrangement and contents of a specimen set.

Carbotyp is used for correspondence, the carbons may be left in until the original letter has been signed, so that a copy of the signature and of any alterations is obtained.

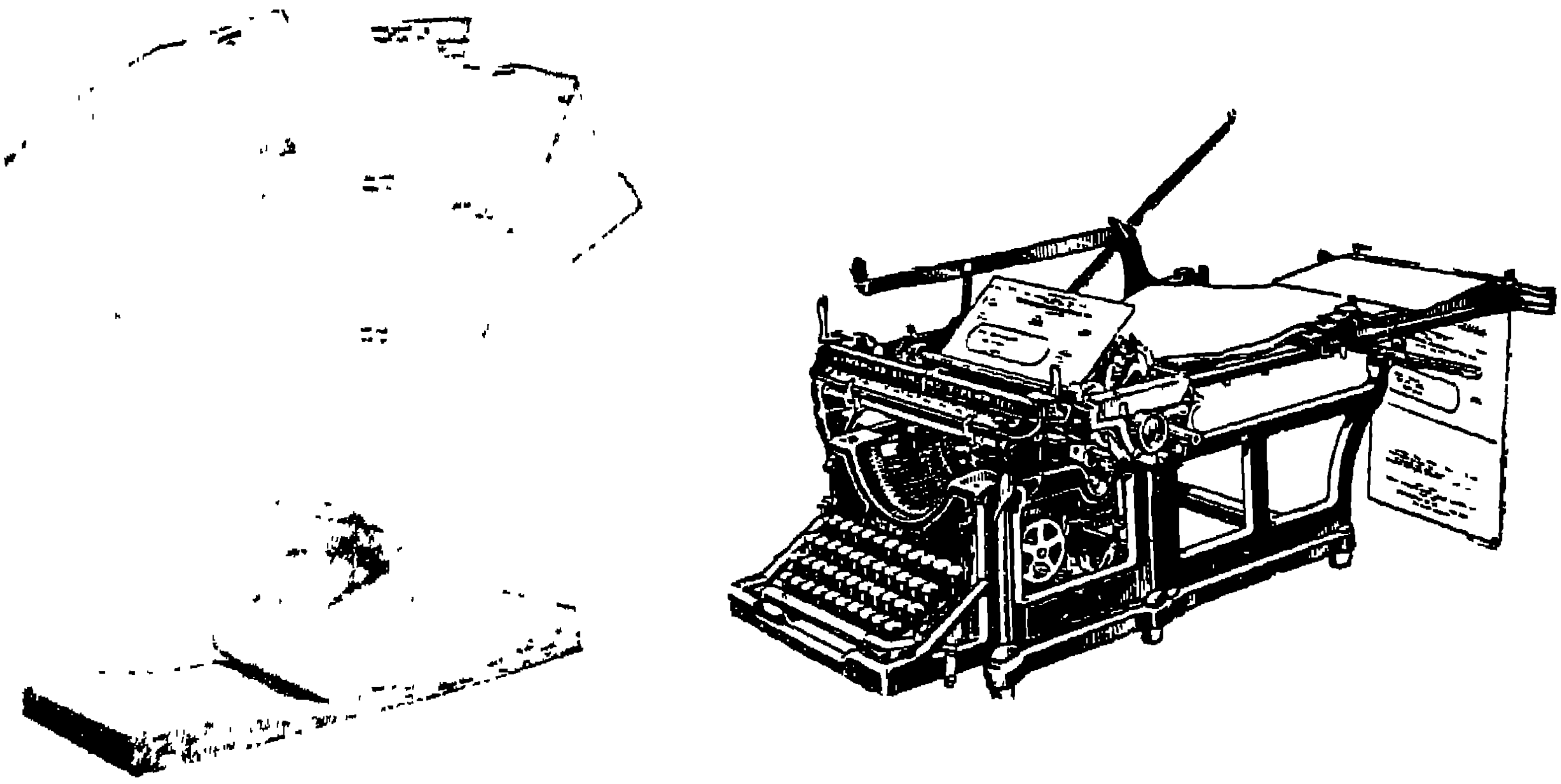
Fanfold Stationery.

The use of mechanical bookkeeping machines has encouraged the adoption of "*continuous*" stationery, *i.e.*, stationery supplied in continuous strips, packed either concertina fashion or in a roll.

Perhaps the best-known types of continuous stationery are the "Fanfold" and the Paragon "Speed" stationery. The principle is similar to that of the Carbotyp, for the stationery is supplied in sets, but, instead of being joined at the top, the different documents are joined along the longitudinal edges, which are perforated to facilitate detachment. Thus there is a continuous strip of sets, supplied in lengths of, say, one thousand sets.

Where this type of stationery is used in the typewriter or bookkeeping machine an automatic device is used for inserting the carbon sheets. As each set is completed and typed the whole set is pulled forward and torn off, either by means of

perforations or by ripping it along a knife-edge. The carbons, however, are held back by an arm so that, when the next set of sheets is drawn into position, the carbons are automatically interleaved. This reduces non-productive movements to a



FIGS. 9 AND 10.—Fanfold Stationery and Underwood Fanfold Machine.

minimum by eliminating the operations of—(*a*) inserting carbons between the forms; (*b*) jogging the set into alignment; (*c*) inserting each set into the machine; (*d*) re-aligning the forms in the machine; (*e*) removing carbons from the forms.

Press Copying.

This process is not nearly so much used as it was formerly, though it is still in use in some small offices.

The copying is done in a letter book which contains, say, five hundred or a thousand tissue sheets, numbered consecutively. The letter to be copied is either written by hand in copying ink or typed with a copying ribbon, and is then placed at the back of the letter-book page, so that the writing or typescript can be seen through the tissue. On top is placed a specially prepared damp cloth, and on top of this as well as underneath the original letter is placed a sheet of oiled paper to keep the moisture from the rest of the book. The book is then closed, and, when pressure is applied to it by means of a hand-press, the copy is made by the transfer of part of the ink from the letter on to the tissue. When the operation is completed, the letter and damp sheets are removed, and the oil sheets are left in the book until the pages are dry.

Many letters can be copied at the same time by this process, and, though the operation is rather slow, and tends to smudge the original document, it has the advantage that the copy taken is an exact reproduction of the original, *including the signature.*

For convenience of reference, the letter book is indexed at

the beginning, the numbers of the pages which bear letters of each correspondent being entered up against the name of that correspondent.

The Roneo Letter Copier.

This is an automatic copier which does away altogether with the messy process of damping sheets. The machine may be worked by hand or by electricity, and, in the latter case, all the operator has to do is to feed the letters between the rollers, whereupon they are copied on a roll of paper fed through the machine and delivered on the other side in a collecting tray. The copying paper used is specially prepared, so that when it is rolled in contact with the original letters a perfect copy is imprinted on it. By this machine, sixty or more letters can be copied in one minute, and as each letter passes through the machine an automatic knife severs the copying roll into separate sheets, which are delivered as copies of the originals into a special receptacle.

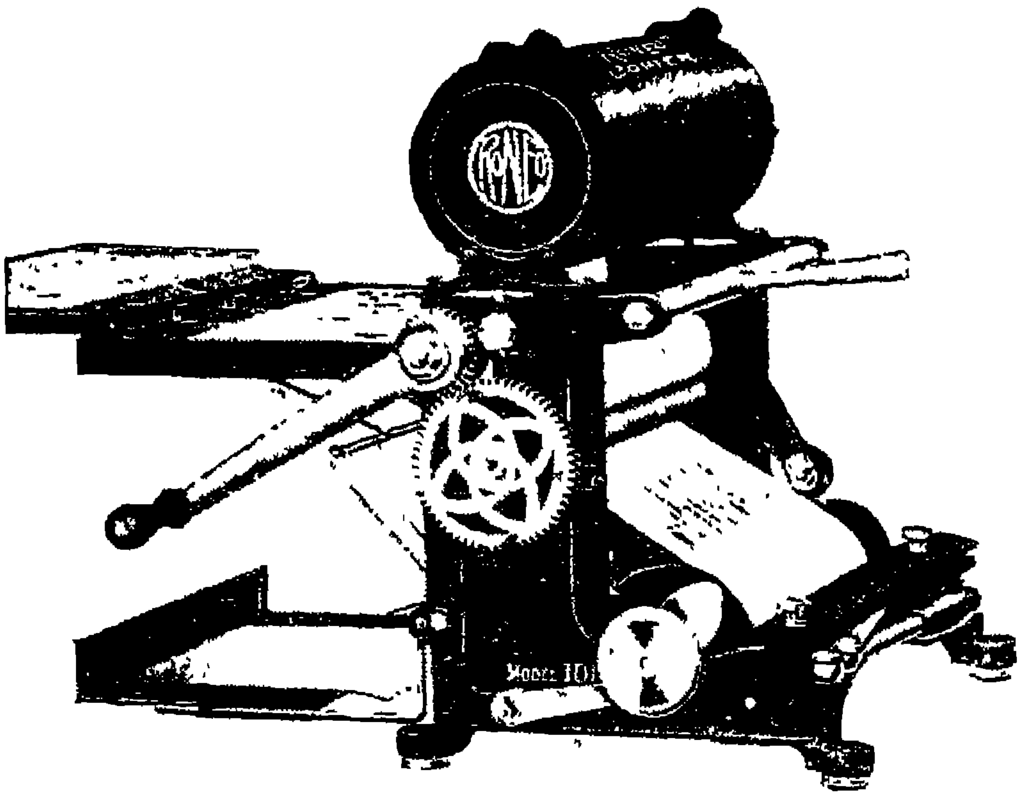


Fig. 11.—The Roneo Letter Copier.

The letters to be copied must be typed with a copying ribbon or written in copying ink. With the former, half a dozen perfect copies can be taken from one original, and, as in the case of press copying, the process is better than carbon work, in that the signature and any pen alterations (provided they are in copying ink) are reproduced on the copy from the original.

A useful appliance is attached to some copying machines whereby the letters are automatically marked with the letter "C," in one corner, to signify that they have been copied. When more than one copy is desired the letter should be headed "II," "III" or "IV," as the case may be, to indicate to the copying clerk how many copies are required.

MULTIPLE-COPY PROCESSES

Most businesses have occasion from time to time to send out more copies of a particular document than could be produced by the carbon process, yet there may be too few to justify

printing, or the job may be so urgent that immediate reproduction is required. This may arise, for example, in the case of a circular letter that has to be sent round at once to customers, or to travellers or agents; or where a prices-current list, an advertising letter of a special kind, a notice of a meeting or a restaurant or hotel menu card, must be produced at an hour's notice. There are hundreds of different ways in which the duplicator can help where repeated typing would be far too slow and printing much too costly.

Gelatine Processes.

One of the first copying devices to be introduced was the *gelatine copier*, which consists simply of a tray of gelatine. The matter to be copied is written or typed with copying ink on a glazed paper, which is then placed face downwards on the gelatine surface, so that when pressure is applied by means of a roller, the ink is transferred to the gelatine. To take copies, sheets of paper are placed on the gelatine surface, and with the aid of pressure an impression is transferred to the copying paper. The method is rather clumsy and the copies are not always clear; moreover, only a limited number of copies can be taken.

A mechanical adaptation of the gelatine process, known as the *Facsimo Duplicator*, has now been introduced, in which the duplicating composition is supplied in rolls of a specially prepared substance mounted on a non-tearable fibre backing. The original document must be prepared with special Facsimo ink, pencil or typewriter ribbon, as the case may be, and the matter to be reproduced is transferred to the duplicating substance as in the old process. This operation is now facilitated by an arrangement whereby part of the roll is drawn over a flat plate in the machine, and, by the backward and forward movement of the carriage, blank sheets are automatically placed on the duplicating surface, pressed and then removed.

In this way, about one hundred copies may be obtained from one impression, and these are ordinarily much better than those obtained under the old system. Moreover, the composition may be used many times, for when the duplicating process is complete the substance is rolled away, the impression automatically diffuses and the same surface can be used again and again, until the whole of the reproducing material has been worn off its backing.

The Stencil.

A stencil is a waxed or composition sheet upon which is typed or traced the matter to be duplicated. Before a stencil is typed on an ordinary machine the ribbon is removed and the type faces are thoroughly cleaned so that they will cut cleanly

through the wax, and make a perfect stencil of the letters and words. Drawings and matter to appear in handwriting, such as signatures, are written or drawn on the stencil by means of a special wheel-pen.

Wax stencils require careful handling as they are liable to crack, in which case every crack very quickly becomes a split, through which the ink will penetrate and print on the paper. For this reason most duplicated work of importance is performed by the use of a composition or indestructible stencil which will not only stand considerable folding and bending without detriment, but also can be filed away and used a number of times. Alterations on either the wax or indestructible type of stencil may be made easily and clearly by the use of a special preparation.

Nowadays it is possible to obtain stencils of complicated diagrams and of display matter by the use of a photographic process. If a concern is too small to afford the expensive apparatus, it can have stencils prepared by the manufacturers at a relatively low cost.

The principal types of stencil duplicators, for instance, the *Roneo* and *Gestetner*, embody substantially the same principles. The duplicator may be either of the " flat " or " rotary " type.

The Flat Duplicator.

Fig. 12 is an illustration of a flat duplicator, in which the stencil is stretched on the hinged frame and covered with a

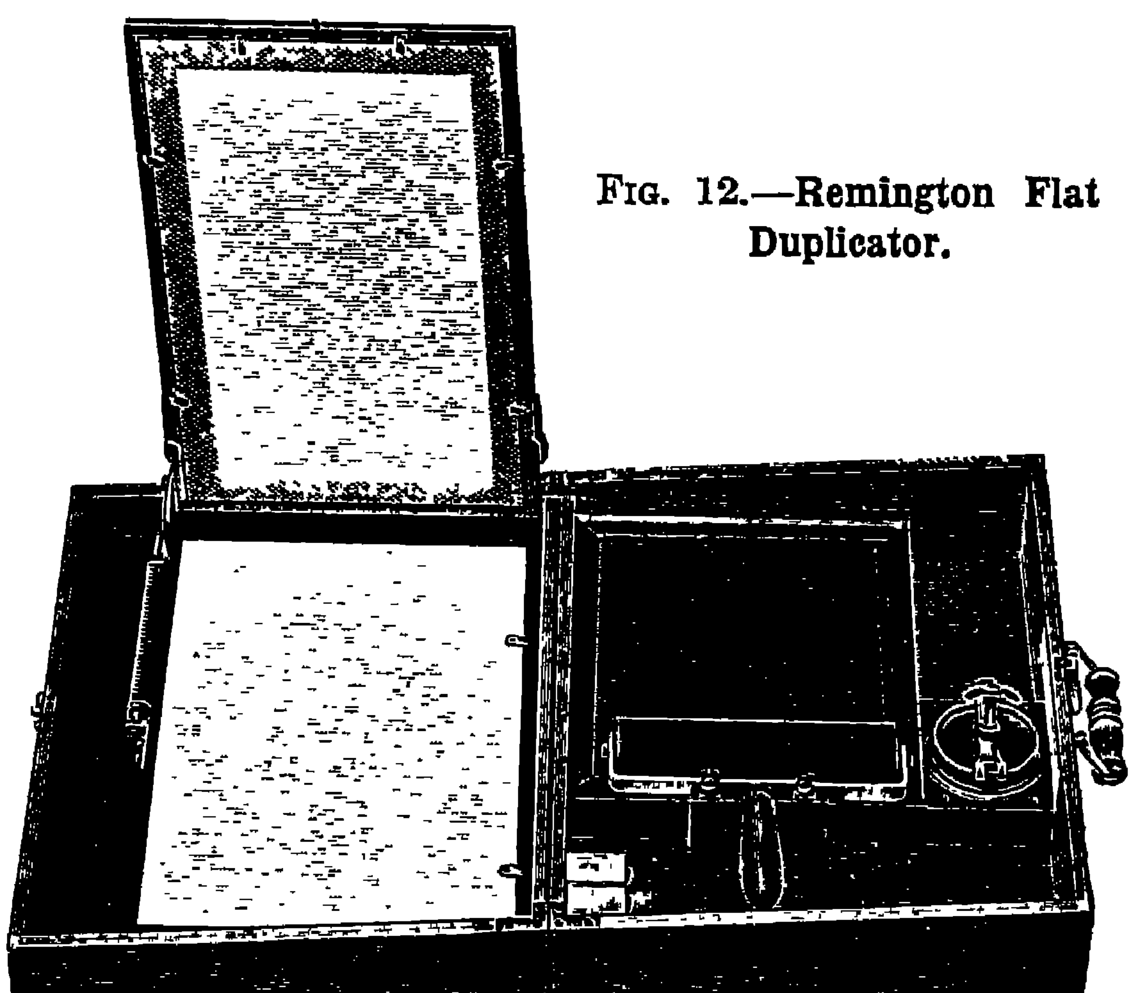


FIG. 12.—**Remington Flat Duplicator.**

protecting silk sheet. This frame can be pressed down on to the printing bed on which the paper is placed, but when it is released, a spring lifts it into the position seen in the illustration. In the right-hand compartment there is a slab and a

tube of ink. When the document is ready for printing, a little of the ink is pressed out on to the slab and rolled about until it is evenly distributed over the whole surface. Then, a sheet of paper is placed on the printing bed, the stencil frame is pressed down on to it, and the ink roller is rolled quickly but steadily from bottom to top. The ink is thus pressed through the stencil and forms a copy on the sheet inserted, after which the stencil holder is released and springs back into the position illustrated. The process is repeated as many times as are necessary to obtain the required number of copies The whole operation is quite simple but rather slow, although as many as one thousand copies can be prepared from each stencil.

The Rotary Duplicator.

In Fig. 13 is illustrated one of the best-known types of rotary duplicator. The stencil is stretched on a round drum and the

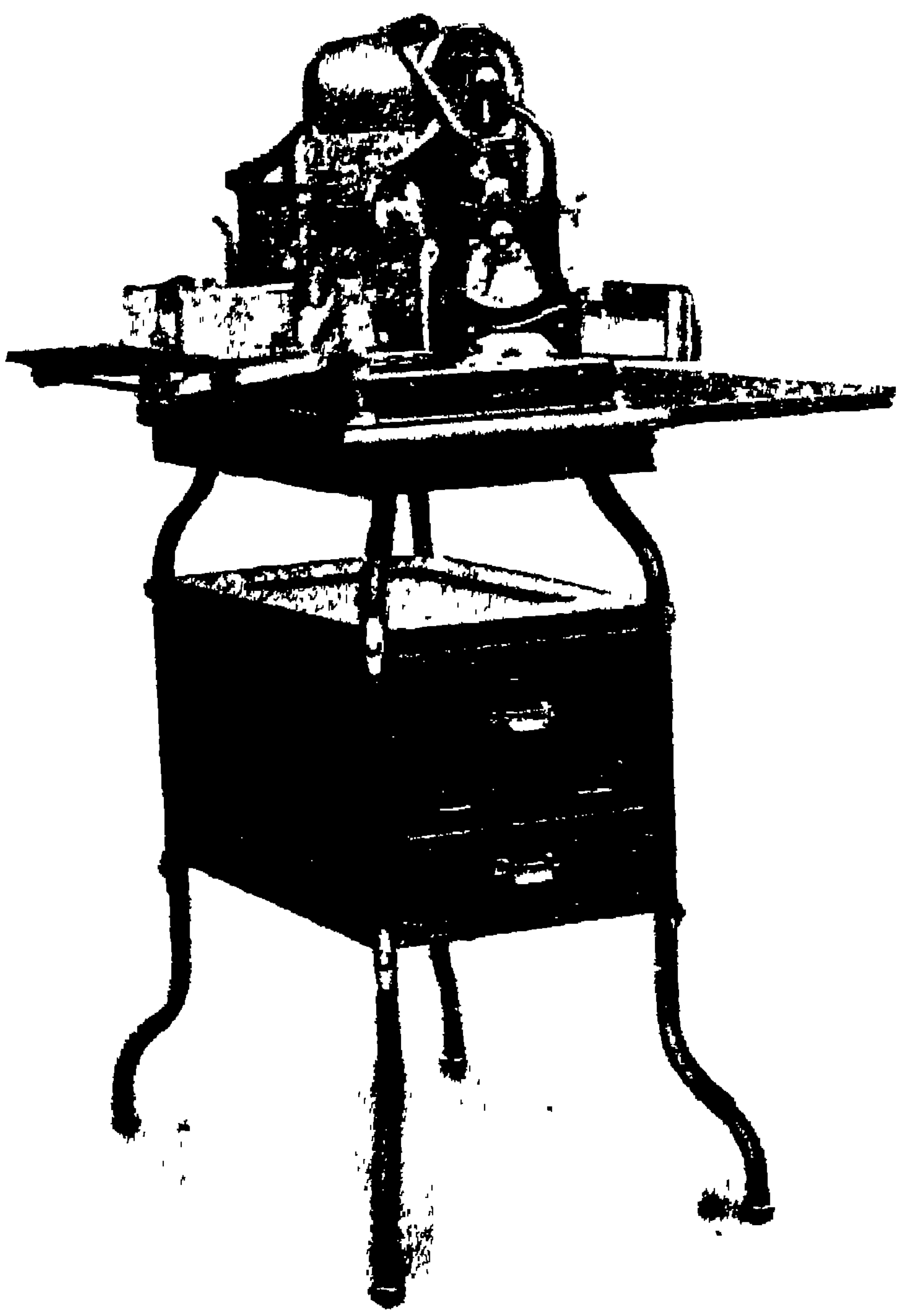


Fig. 13.—Gestetner Rotary Cyclostyle.

ink is fed automatically behind it. As the machine is operated, either by hand or by electricity, the paper is passed between the printing roller and the cylinder, and as the cylinder rotates, it carries the paper with it and at the same time imprints the copy upon it. After passing through the machine, the printed

paper drops into a receiving tray, and the machine picks up another sheet to repeat the process. These machines may be obtained fitted with a cyclometer, *i.e.*, a number recorder, showing how many copies have been taken, and from the special hard-wearing kinds of stencil up to ten thousand copies may be taken at a speed of one hundred copies a minute.

Office Printing Machines.

Besides the "stencil" duplicators which have just been described, many offices now make use of small printing machines for producing such items as circulars or price-lists which are urgently and frequently required. The stencil has the advantage of being cheap and easy to manage, but its use is limited to cases where only a few thousand copies are required and where the appearance of the copies is not the chief consideration.

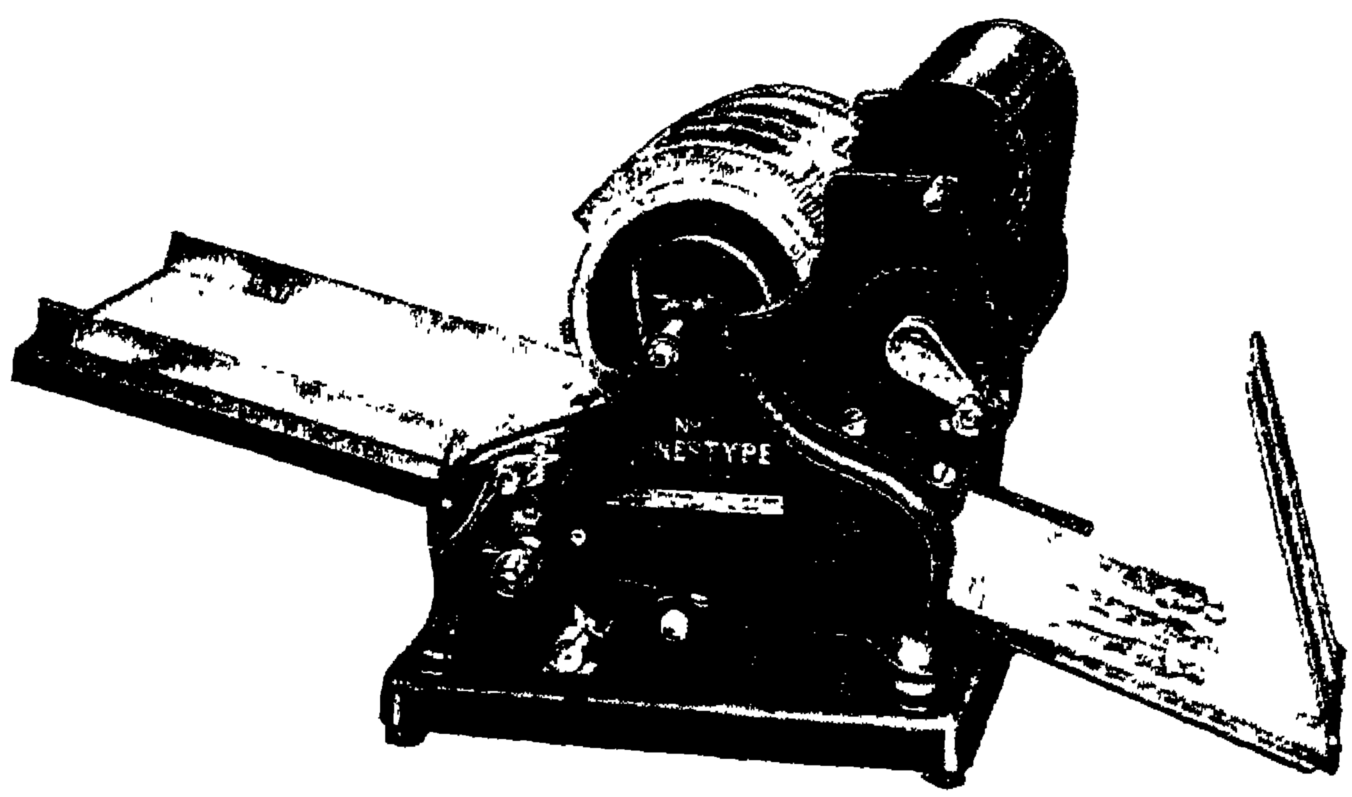


FIG. 14.—**Roneotype, with Printing Attachment.**

For work where particularly smart appearance is required, or where, say, fifty thousand copies have to be produced, recourse is had to such machines as the *Gammeter Multigraph*, the *Roneotype* or the *Presilo*. These machines are usually of the rotary type, but instead of using stencils they print from actual lead type, which may be set up by hand or by a setting-machine. The type is arranged or "composed" in a grooved case, known as a "form," which, being pliant, can be bent in a half circle and fixed round the cylinder of the machine.

The machine may be operated electrically, as is usual, when a speed of six thousand copies an hour can be obtained, or by hand, when the speed is reduced to three thousand copies an hour. As the cylinder revolves, paper is fed between the type face and another cylinder which maintains correct pressure. The ink may be fed either from a roller direct on to the type face (by pressure) or from a wide ribbon, similar to a typewriter ribbon, placed between the type face and the paper. The latter

method is invariably used for the printing of circulars, or letters which are intended to be as nearly as possible like an actual typewritten letter, for it is then possible to "match in" the names and addresses.

One great advantage of such machines is that not only type but also diagrams and illustrations may be copied by the use of "blocks" or "electros." Moreover, there is no limit to the number of copies which may be obtained from one setting-up, whilst the copies produced compare favourably with ordinary typing and printing.

A particular advantage of the latest model Multigraph machine is that it will not only duplicate letters and insert therein at the same time the name and address of the addressee, the date, salutation and signature, but also address the enve-

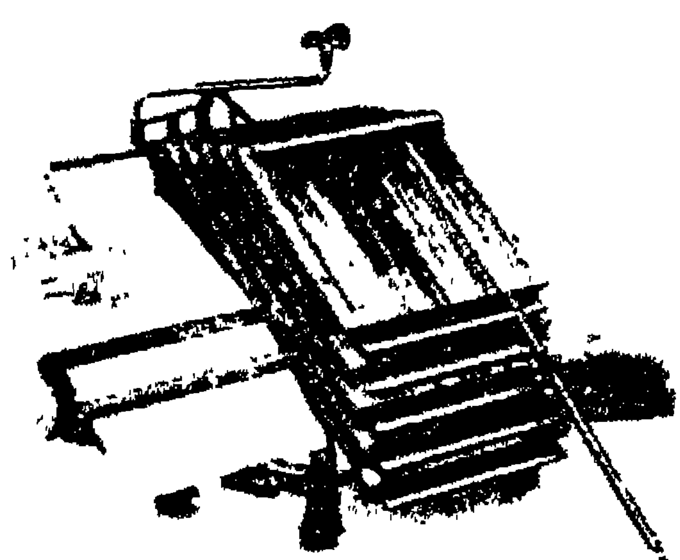


FIG. 15.—Roneo "Gravity" Fount, for setting up types, with Paper Holder attached.

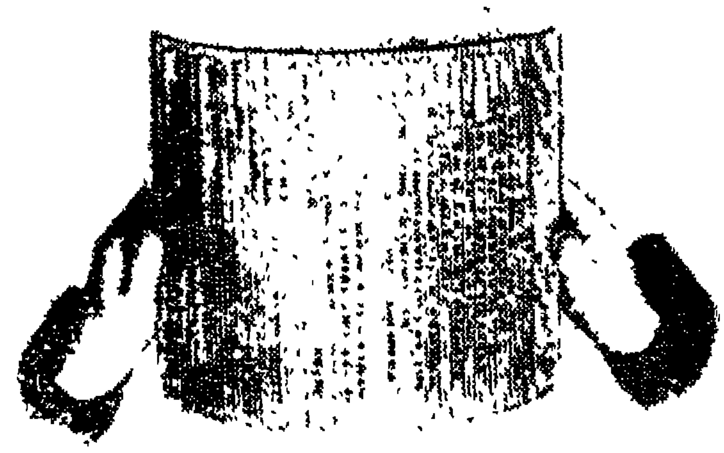


FIG. 16.—Flexible Form or Segment. The flexible form shapes itself naturally to the printing cylinder, and can be filed away flat like correspondence.

lopes in the one operation—and this at a speed of one thousand copies per hour. Thus the apparatus is in effect a combined duplicating and addressing machine.

The Rotaprint.

An office lithographic printing and duplicating machine which is becoming increasingly popular is the *Rotaprint*. Instead of working from a stencil, or from actual type, a flexible plate of prepared aluminium is used. This can be either typed on with a special ribbon or written upon with a Rotaprint pencil or Rotaprint ink; the signature can be written or impressed on the metal sheet by means of a block or rubber stamp, whilst corrections can be made by means of an ordinary typewriter eraser or a glass brush. After the matter to be reproduced has been written or typed, it is fixed by means of a chemical. The metal sheets can also be sensitised by a simple process in daylight and printed on from a negative. By this means existing forms, letter-headings, leaflets, plans, and illustrations in line and half-tone can be

produced on the machine on any kind of paper and in any colour of ink.

The plate is provided with a series of holes at each end to enable it to be fastened securely round the cylinder. The machine prints from a roll of paper or from cut sheets automatically fed into it at high speed—up to 6000 an hour. When in operation, the aluminium sheet is brought into contact with damping rollers and retains a film of moisture except where the water is repelled by the greasy ink. Ink is then automatically applied to the image and is retained only by those parts of the surface which have to be reproduced. The image is transferred from the plate to a rubber-covered roller and thence to the paper, which passes between the roller and an impression cylinder.

The machine is remarkably speedy in action, a skilful operator being able to turn out three thousand copies to the hour where a sheet feed is used, and six thousand to the hour with a roll feed. On the large machine a speed of twelve thousand copies an hour can be obtained by using two metal sheets and slitting the paper automatically as it is delivered.

Besides being useful for duplicating circulars, forms, price-lists, etc., the Rotaprint has the added advantage that it can be adapted for photographic work. Any type of copy can be photographically reproduced on the aluminium plate, either actual size, reduced or enlarged, and, where there is not sufficient of this type of work in an office to justify the instalment of the photographic apparatus, the copy can be sent to the makers of the machine and they will supply the aluminium plate ready for use at quite a low cost.

The work turned out on the Rotaprint is excellent. Typing or printing, holograph or photograph, can be reproduced so as to be scarcely distinguishable from the original. Colour-work, too, is possible, by using a separate sheet for each colour, though this is necessarily a more difficult process. When printing has been completed, the aluminium sheet can then be stored for future use by being treated with Rotaprint Preserving Fluid and subsequently dried.

Controlled Typewriters.

A recent development is the application to typewriters of the system of control familiar to most of us in the operation of a player-piano. Suppose it is desired to send out some hundreds of copies of a certain circular, but that it will be necessary to embody in some or all of the copies a special passage peculiar to the addressee. It would, of course, be possible to leave a blank space in a stencil or in the type set up for, say, a Roneotype machine, if it was known that the necessary passage would be of the same length and that it

could be inserted in the same place in every case, for the necessary insertion could be "matched in" on the copies after they had been duplicated.

But, if the passage was to vary in length or position, this method is of no use. Instead, the whole circular can be typed out on a special machine which prepares a record similar to the rolls used in player-pianos. This roll is then inserted in a specially fitted typewriter (electrically operated), and at a touch of the control the typewriter will type out the circular at great speed. The machine can be set to stop at any point in the circular, when a typist can sit at the machine and type in the necessary passage, after which the machine can be started again and will complete the circular.

The Photostat.

This is a machine used for the photographic reproduction of letters, maps, drawings, agreements, etc. It consists of a large

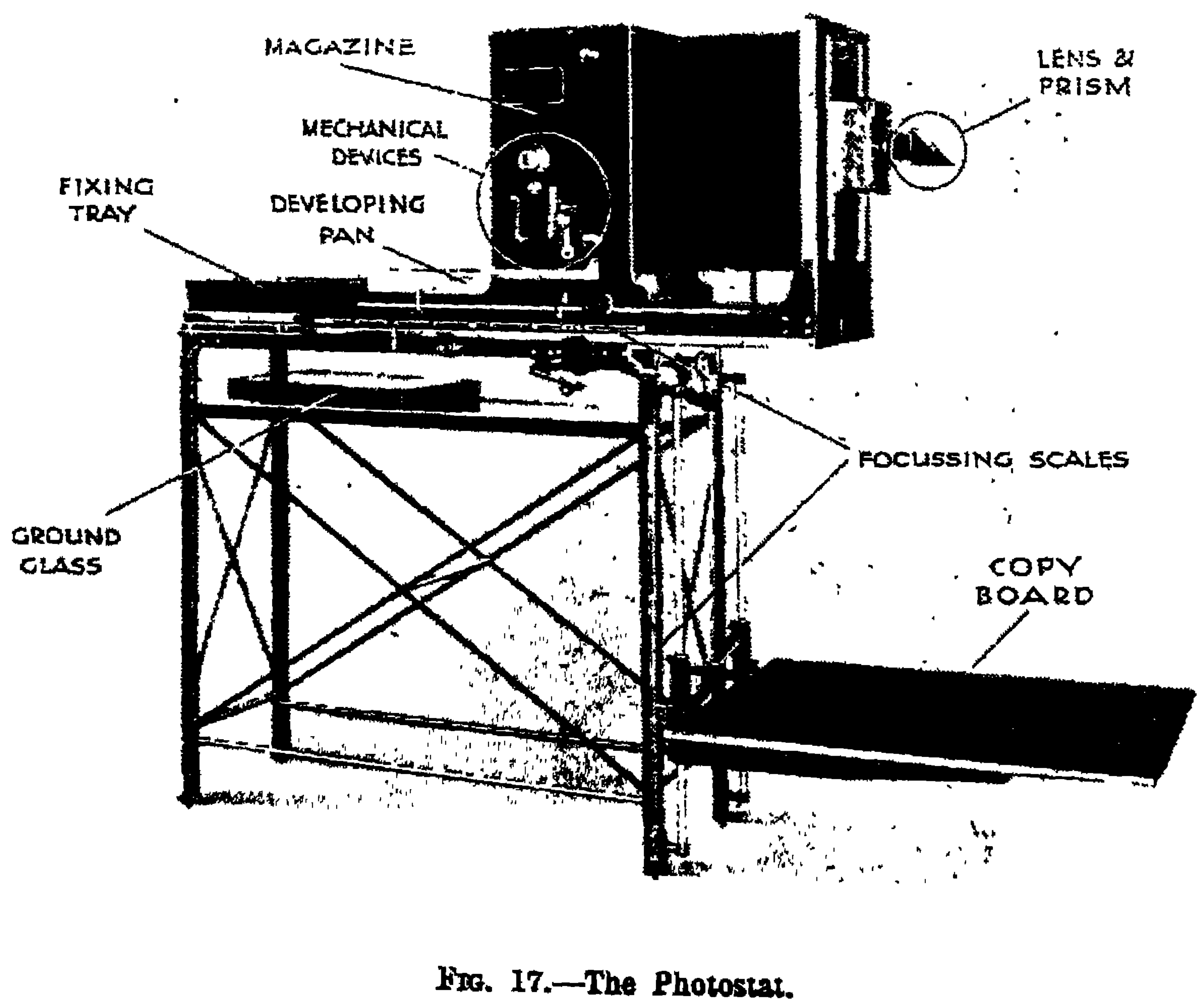


FIG. 17.—The Photostat.

camera with a magazine for holding a roll of sensitised paper, and with compartments for developing and fixing. This assembly is mounted on a stand, to the front legs of which is attached a movable subject-holder. The equipment also includes a simple device for mechanically focusing the machine to any desired size of copy. The subject is photographed through

a lens with prism attached, and the photographic paper copies are made, cut off, developed and fixed in the machine itself at the rate of about one per minute. Neither intermediate negative nor dark room is required, and when the copies are washed and dried, they are ready for immediate use.

The copies made by the Photostat read from left to right in the ordinary way, but the light and shade are reversed. If positive copies are required, the first copy is photographed and the correct light and shade are thus obtained.

Addressing Machines.

These are useful for addressing envelopes, wrappers or labels from prepared stencils or plates, and they save an enor-

FIG. 18.—The Addressograph.

mous amount of time when communications have to be sent regularly or frequently to the same persons. They may also be adapted for preparing wage lists, dividend lists or any other tabulations of names, such as lists of customers in a particular area. Of the various forms of addressing machine, the *Roneo* and the *Addressograph* are the best known.

THE RONEO ADDRESSING MACHINE prints from stencils made of a particularly durable material (Paratype Stencils), which are mounted on card frames and prepared beforehand on the typewriter. A pile of the stencils is placed in position on the machine, envelopes are fed one by one into a slot, and a turn of the handle carries both stencil and envelope between rollers, the top one of which is lightly inked. If desired, the addresses

can be printed on a continuous roll of gummed paper, or on sheets.

THE ADDRESSOGRAPH operates in much the same way, but it prints the names and addresses through an inked ribbon instead of a stencil. First the addresses are embossed on zinc plates by means of a machine supplied by the same makers, and these plates are filed in alphabetical or other order in cabinets designed for the purpose. When an addressing job has to be done, the plates concerned are removed from the cabinets and are placed in the machine, by which they are fed under a wide typewriter ribbon. The envelopes or wrappers to be addressed are placed over the ribbon, and, on being pressed by a movable arm against the embossed plate, the typewritten address is produced thereon.

Selections of certain plates on the lists can be printed with the aid of the visible printing point and the remainder passed by, or the Addressograph can be equipped with an Automatic Selector Attachment, which automatically selects any class of address desired for printing and omits the others. In addition, the machine can be fitted with numbering, dating, counting and other attachments. By means of a special device it is possible to block out part of a stencil, so that only the required details are printed.

The metal address plates may be purchased from the manufacturers, but if renewals or additions are frequent, a *Graphotype machine* can be purchased, by means of which the plates may be prepared in the office. The keyboard graphotype is operated in a manner similar to that of the typewriter, whilst in the case of the hand-operated graphotype, the operation is somewhat similar to that necessary to work the metal-label printing machines frequently to be found on railway platforms.

TABULATING AND CALCULATING MACHINES

In no direction has the use of machinery for office work effected such a great saving of time, expense and labour as it has in regard to such matters as tabulating, calculating, accounting and statistical work.

Tabulating Machines.

Such well-known machines as the *Hollerith* and *Powers* are used for analysis work, for cost accounting, sales records, insurance schedules and many other kinds of similar work. They are exceedingly useful and economical where there is a very large amount of routine tabulating or analysing to be done, and are capable of being operated at high speed and by junior employees.

Both systems are based upon the use of cards in which holes are punched to represent amounts, quantities or other data. The cards may be sorted under any desired head and automatically classified, counted and listed by ingenious sorting and tabulating devices. The original information on the cards may be analysed in one, two or more ways, whilst the same cards can be used again and again for the same or different purposes.

The use of these machines involves four processes: (*a*) *Punching* the information on the cards by means of an electrically operated key-punch, which makes holes in the cards in different positions to represent different figures and facts; (*b*) *Verifying* the previous hand-process by passing the punched cards through a punch which is set to indicate certain data and, on the insertion of a punched card, compels the operator's attention if the record thereon is not what is required; (*c*) *Sorting, i.e.*, passing the cards through an electrically operated machine which sorts them out at great speed into any required groups; (*d*) *Tabulating*—this, the final process, consists in totalling up the information on each group of cards, and listing the totals thereof in any manner desired.

The following are some of the uses to which these machines can be put in connection with sales and purchases :—

DISSECTION OF SALES.

(*a*) Under nominal accounts and personal accounts.
(*b*) Into geographical, trades or commodity classifications.
(*c*) Among different branches or travellers of the concern.

DISSECTION OF PURCHASES.

(*a*) Under nominal and personal accounts.
(*b*) According to commodity or article.
(*c*) Among different branches of the concern.

The Paramount System.

A system of sorting information which is becoming increasingly popular is the *Paramount* system. This is based on the use of cards on which the necessary data can be typed or written. Like the cards used in the Hollerith and Powers systems, the Paramount cards are sorted by means of punch-holes, but the holes, instead of being made in rows in the body of the cards, are punched all round the edges of the cards when supplied. Each hole belongs to a group, and has a definite significance.

The only appliance required is a hand-punch (similar to a ticket-collector's punch) which is used to clip the holes where required, so as to turn them into grooves, each groove indicating that figures in a certain group are recorded on the relative card.

To sort the cards into any required classification they must first be stacked in order; and to ensure that all the cards shall be the same way up, one corner of each card is cut away so as to leave a tell-tale projecting corner if any card is the wrong way up. Next, a long needle is inserted through the hole representing the figure which it is required to abstract. All irrelevant cards can then be lifted on the needle, leaving only those cards which have been cut away at the hole in question. This operation is repeated with the next figure of the classification, and so on, until only those cards which have the necessary group of holes slotted are weeded out.

It will be realised that this system is limited in scope. There are no automatic tabulators or adders. It is purely a method of recording and classifying information in such a form as to be readily capable of analysis. The system has the advantage, however, of being exceedingly cheap to install, since there is no costly machinery, whilst its operation is very simple.

Calculating Machines.

Various types of calculating machine are now available by means of which a skilled operator can add, subtract, multiply or divide with great rapidity. The operators usually receive special training, and it may indeed be said that an untrained person can usually do better without the machine than with it. Some of the machines (*e.g.*, Burroughs Non-Listing Calculator and the Monroe Automatic Calculator) merely produce a total, a difference, a product or a quotient without printing any figures, but there are several combined adding and listing machines which not only give an automatic total but also list the amounts. Two of the best known makes are the *Burroughs* and the *Remington.*

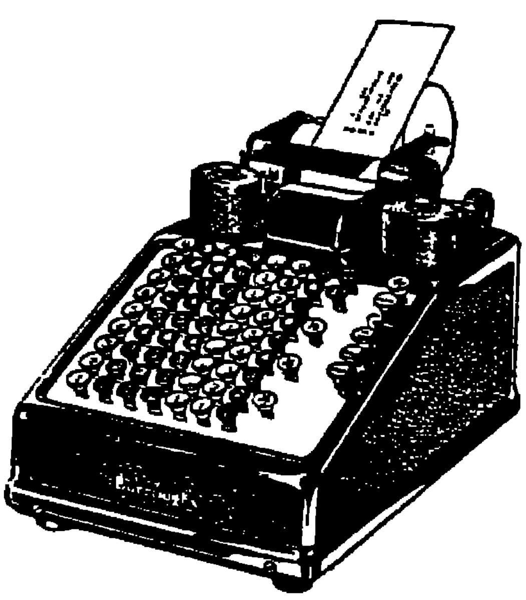
BURROUGHS ADDING MACHINE.—By means of this machine, details of amounts added, together with the total, are printed on a paper roll or on loose leaves inserted in the machine. The leaves are inserted around the platen, which is borne on a carriage as in the typewriter (see Fig. 19). The machine is speedy, accurate and neat. It minimises fatigue and can be worked by junior labour. Its principal uses are for totalising cash slips (in departmental stores, etc.), wages sheets, statements, ledger balance books (loose leaf), ledger postings, clearing totals (as in banks), etc.

THE COMPTOMETER.—This is one of the best known of the *non-listing* calculating machines, and is designed to carry out almost any type of calculation both quickly and accurately. The machine is light, portable, and practically noiseless, and is extremely rapid in action, since it is operated solely by the depression of keys. It is so constructed that it may be used for additions without the operator having to look at the keyboard, thus enabling him to concentrate his attention entirely on the

figures to be cast. It adds, subtracts, multiplies, and divides in whole numbers, decimals, fractions, sterling, all currencies, weights, measures, etc., and is twice as quick as mental work on addition, and eight to ten times as quick on multiplication and division, whilst subtraction is performed almost instantaneously.

The keys of the machine are so arranged as to operate the mechanism only if fully depressed. This protects the operator against partial or inaccurate key-strokes, and enables the error to be corrected without the necessity of beginning the work again. This further increases the speed, besides enforcing absolute accuracy.

The comptometer is used for almost every commercial calculation, amongst which may be mentioned the addition, checking, and extension of invoices, of wages sheets (in time or



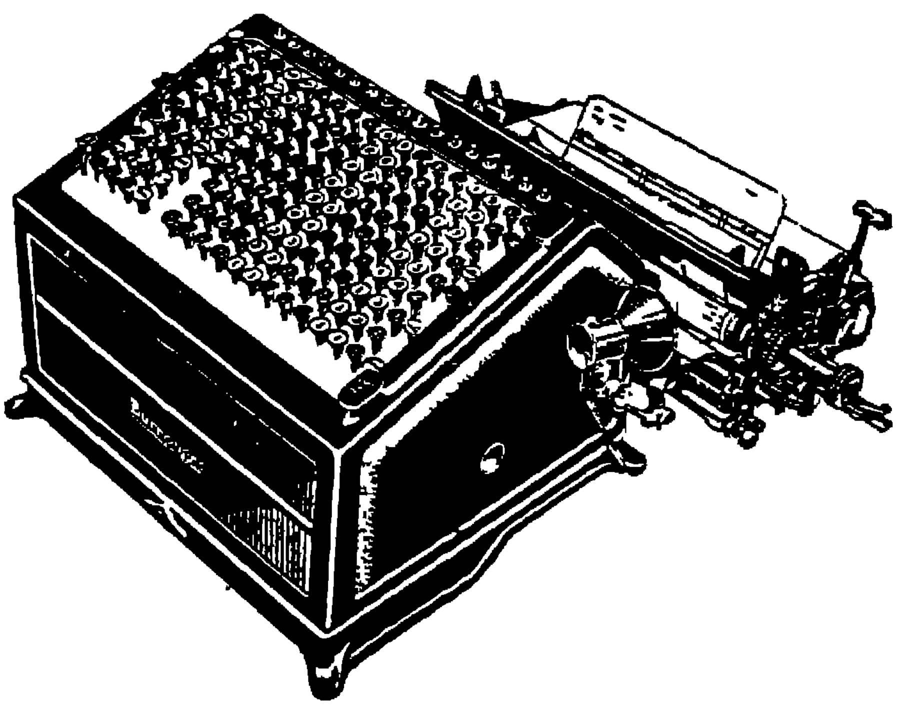


FIG. 19.—**The Burroughs Adding Machine for Desk and Counter Use, and the Burroughs Automatic Bookkeeping Machine.**

piece-work), and of stock sheets; totalling trial balances; checking journals, cashbooks, and ledgers; and calculating foreign exchange, interest, and percentages. It is made in three sizes (8, 10, or 12 columns), and the keyboard may be fitted for sterling, decimal, or rupee currencies.

Bookkeeping and Ledger Posting Machines.

In recent years, vast progress has been made in the application of machinery to the carrying out of the many routine operations connected with ledger posting, invoicing, preparing statements, advices, cash receipts and payment records. Various types of machine are available for these purposes, and among the best known are the *Burroughs*, the *Remington*, the *National*, the *Elliott-Fisher*, the *Smith Premier* and the *Sundstrand*.

These well-known makes of machines are available in a wide variety of different types, and can be obtained either in

the form of the ordinary automatic bookkeeping machine carrying out the combined operations of ledger posting and preparation of statements, or as electrically operated typewriter accounting machines which can be used for all accounting work where typewritten detail is required. The latter machine posts several forms in one operation and automatically punctuates, tabulates and dates the matter dealt with. As each item is posted, a record thereof is made on a separate audit sheet which provides a cross check on the work and is used for daily and sectional balancing.

The method of operating a ledger posting machine in an ordinary business house is somewhat as follows: Copies of all

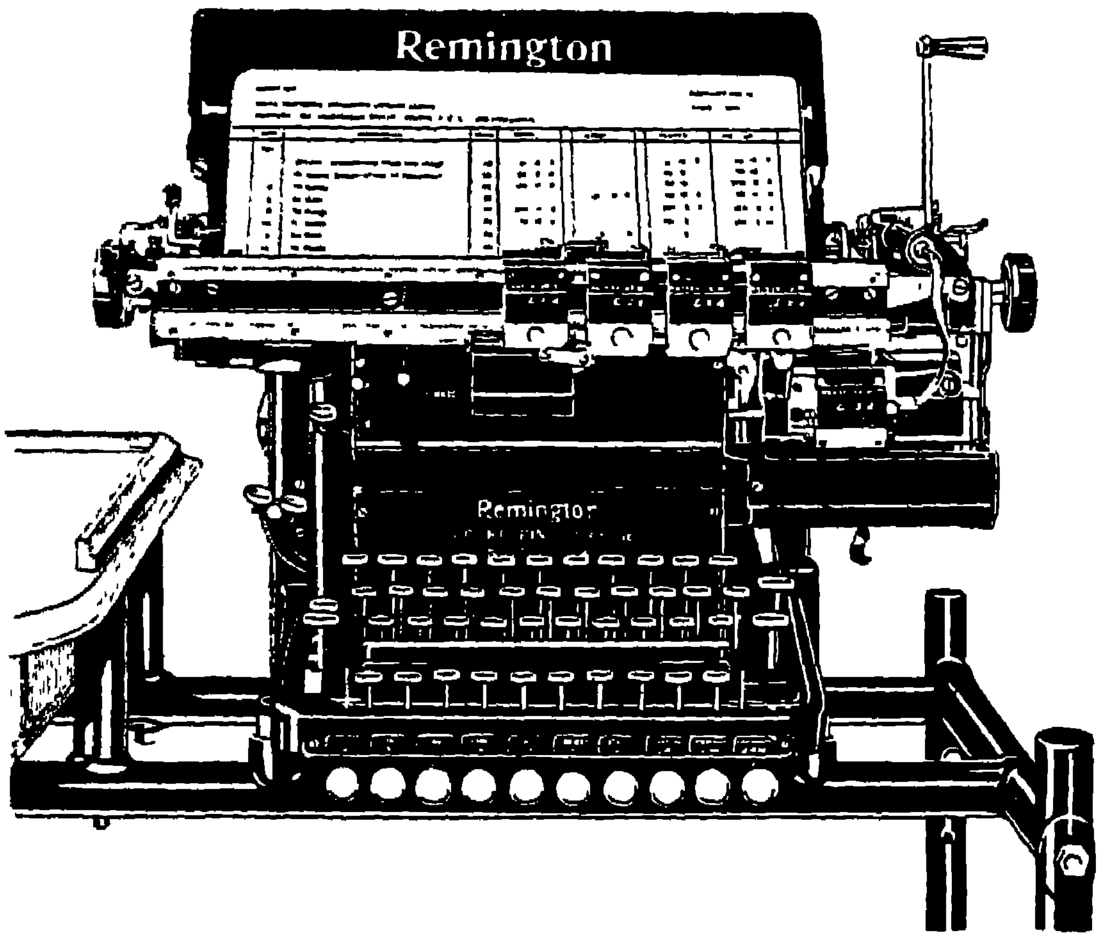


FIG. 20.—The Remington Typewriter Accounting Machine.

invoices issued the previous day are first sorted into the same order as the ledger sheets, and are listed in batches in order to obtain the total of the credit sales for credit to the sales account. Each ledger sheet for a single batch of invoices is then inserted in the machine in turn, which is operated by means of keys like those on a typewriter. The machine will post the debit and automatically throw out the new balance. By some machines a ledger statement (inserted behind the ledger sheet) is at the same time posted up to date. In some models a separate list of the batch of invoices is automatically recorded and totalled, whilst in others an index on the machine builds up an accumulative total which can be checked with the list made independently by the "control" section before posting began.

Batches of remittances, returns, etc., are posted in a similar way.

Thus the whole system is built up on the self-balancing principle.

Advantages of Bookkeeping Machinery.

Machines of the Remington type are extensively used by banks, insurance offices, stockbrokers, departmental stores, wholesalers, local authorities and public services. As a result they have made possible large staff reductions, though in some cases they have provided the management of institutions concerned with difficult problems in relation to surplus staff for which sufficient work cannot be found. Nevertheless, apart from the reduction in staff salaries which is made possible by the use of these machines, the system has the following additional advantages :—

(*a*) An automatic daily proof is obtained, work is always up-to-date, and, in business houses, statements can be sent out promptly on the last day of the month with a possibility of earlier payment of the account.

(*b*) At the end of the trading period the ledger will be already proved and a trial balance can be taken out immediately.

(*c*) The ledgers can be proved at any time with the control or adjustment accounts.

Installation of Accounting Machinery.

When accounting machines are first installed in the office, it is rarely found that the existing routine can be satisfactorily adapted, and it often becomes necessary to rearrange completely the accounting organisation if the machines are to operate at their maximum efficiency. In particular the following points should be borne in mind :—

a) The machines must be regarded as the centre of the accounting system and should be fed with a continuous supply of work.

(*b*) The ledger equipment must be brought up-to-date. Ledger trucks or trays, which hold the ledger in an easily accessible position and can be wheeled to the operative's desk, enable the operative to carry out the work without leaving his chair.

(*c*) The accounts should be arranged so that the operator can work straight through the ledger without having to search for each account.

(*d*) Junior clerks can be appointed to carry out the feeding work and can be trained as emergency operators.

(*e*) The machine and ledger equipment should be arranged in the most convenient position in relation to each other and to the staff concerned.

The Campos Machine.

This is a bookkeeping machine of an entirely new design, In other machines there is always the possibility of error when

the commencing balance is inserted into the machine from the ledger account by the operator before the posting of the separate items is begun. In the Campos machine this possibility is eliminated, as the machine stores within itself the balances on the ledger accounts, and automatically brings forward the balance on any particular account when it is set with the number of that account.

The main features of this machine are that it will :—

(*a*) Select and print the old ledger balance.
(*b*) Print debits and credits automatically in the correct columns.
(*c*) Compute and print the new balance.
(*d*) Store the new balances.
(*e*) Accumulate postings for double entry purposes.
(*f*) Give a trial balance by the setting of a lever.

It will be seen, therefore, that the human element, with the attendant possibility of errors, is reduced to an absolute minimum.

The chief disadvantages of this machine are, however, its high initial cost and the comparatively heavy running costs. In addition, the *capacity* of the machine is limited, in the largest model, to one thousand accounts. In a large concern, therefore, it would be necessary to have more than one machine, when the system is, of course, less efficient. Further, if a business outgrows the capacity of the machine, considerable disorganisation must result.

MAILING-ROOM AND SUNDRY DEVICES

Numerous devices are commonly used in the mailing-room to obtain the combined advantages of speed and economy.

The Gumming Machine.

This machine enables a strip of strongly gummed, tough paper, about an inch wide and of any required length, to be neatly torn off and wetted, for attachment to the flaps and interstices of a parcel. It is quite effective for parcels of small weight, it saves string and time, and it is easier and neater than ordinary tying.

The Sealing Machine.

There are many makes of sealing machine on the market, the best being run from the electricity mains. Provided they are properly handled they save a great deal of time and wax, and produce efficient seals for letters or parcels.

The Stamp-Affixing Machine.

This machine, which resembles the ordinary date or numbering stamp, counts and affixes stamps which are purchased in

rolls for insertion therein. If desired, the machine will cancel the stamps at the same time, and is therefore extremely useful for affixing stamps on National Health or Unemployment Insurance Cards. The machine can be locked when not in use, and pilfering thereby avoided.

The Franking Machine.

A franking machine is a very useful time-saver, which enables stamps to be printed in ink on envelopes and other outgoing postal packages, together, if desired, with an advertisement of the sender's business. It incorporates a meter, which is set and locked by the Post Office officials according to the amount prepaid, and when this is exhausted the machine becomes inoperative and must be re-set.

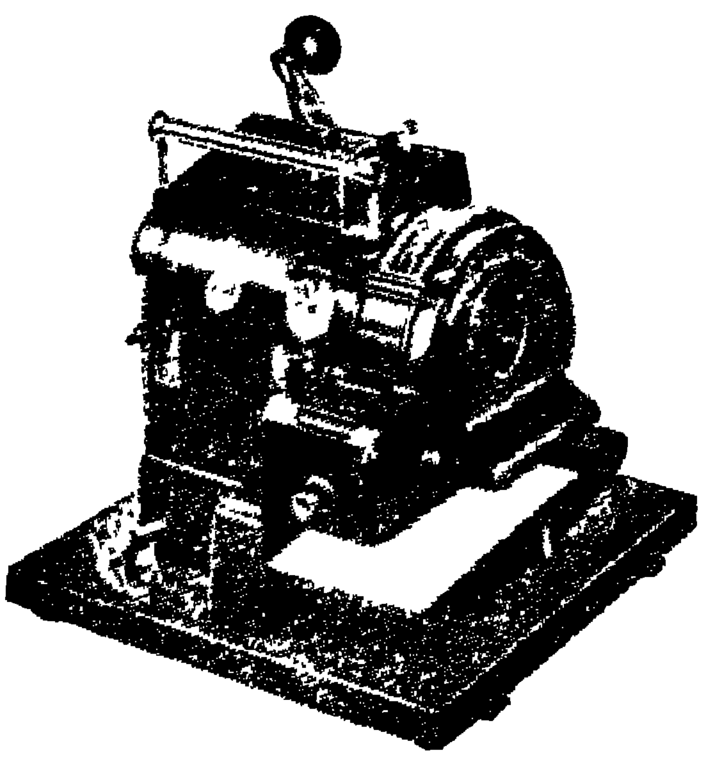


FIG. 21.—Postal Franker.

Folding Machines.

Though not so substantial as a printer's folding machine, office folding machines are capable of rendering considerable service where a large number of circulars of a uniform size have to be dealt with. They usually have a folding capacity of four thousand documents per hour and can be adjusted to make many different kinds of fold, or even three or four folds in combination.

Stapling Machines.

Various types of machines are manufactured for fastening together correspondence and other papers, but the principle is the same in each case. The papers to be fastened are placed so that a corner rests on the base of the machine. The "threader," or that part of the machine carrying the wire or staple, is pressed and the wire passes through the papers, is clipped off and the ends are doubled backwards.

In other forms, no wire or staples are used, but a piece of the paper is cut out in the shape of a tongue, which is passed through slits cut by the machine in the papers, and doubled back so as to form a secure fastening. Naturally, only a limited number of papers can be fastened together in this way at one time.

Automatic Numbering Machines.

These are very useful for numbering correspondence, invoices, dividend warrants, etc. They may be set to print one number continuously or to print consecutive numbers, or to repeat each number, and can be re-set to zero after each operation. Sometimes a date stamp is combined.

INTERCOMMUNICATION

In concerns of any size it is impracticable and wasteful for the persons employed to visit one another for consultation on every point that arises, while a messenger service is slow, wasteful and liable to error. Hence, some method of intercommunication is essential in all but the smallest offices, and of the various methods in operation the following may be mentioned:—

Bells.

This simple method needs little explanation. It merely involves the pressing of a button, which rings a bell in the room where the person required is working. Where more than one person is in a room, the system of ringing once for one person, twice for another, and so on, is sometimes employed. The system is suitable only for small offices, and it does not avoid the necessity of a journey on the part of the person who is called.

Internal Telephones.

In most offices where a system of intercommunication is necessary, resort is almost invariably had nowadays to one of the several types of internal telephone which are available. These are of varying design, size, method of operation and expense, and the installations may be either purchased outright or rented from the manufacturer. There are in general five types of internal telephone: (*a*) operated exchange systems of the hand-operated switchboard type; (*b*) automatic types; (*c*) house telephones of the multi-cable class; (*d*) "executive" systems; and (*e*) systems which combine two or more of the foregoing features.

Operated Exchanges.

These are ordinary telephones linked to a private exchange, from which the operator connects up the various stations when requested to do so.

The system has several disadvantages, notably, that it is not private, that it requires the attendance of an operator (who must, of course, be paid and must be relieved in shifts if a constant service is to be maintained), and that it involves the inconvenience of calling through a third person as against the direct communication of other systems.

This system is often linked up to the external (G.P.O.) lines by means of a *Private Branch Exchange*, but this method has the disadvantage that external calls may be held up through lines being blocked by internal calls. There is also the drawback that the operator can listen-in to conversations.

Automatic Systems.

Telephone systems which operate automatically are rapidly replacing the manual type not only for public work but also for office and factory use. Systems of this type do not have the disadvantages which are possessed by the operated exchange type, while, in addition, they are cheap to install and maintain and can be extended as is necessary. Their disadvantages include their need of expert attention at periodical intervals and the occasional necessity for the replacement of expensive parts.

One of the most suitable types of automatic telephone is that which is known as the *Relay Automatic System.* By this system any number of stations can be linked up, and the various stations call one another by means of a dial, fitted to each receiver, on which the numbers 1 to 9 and 0 are provided. A station is called by dialling the number of the required station in the same way as in the latest public telephone installations.

Originally, these dialling systems were suitable only for very large concerns, but nowadays they are adaptable where there are as few as twenty stations.

Multi-Cable Systems.

These are suitable for use where the number of stations is not large. The hand-set is much the same as that of the Post Office telephone, and stations are called direct by pressing a button (one for each " station ") attached to a small portable box and removing the hand-set as in the case of the Post Office telephone. Several pairs of stations may be in communication at the same time, while in some cases three or more persons may confer together from different stations, as in a conference.

These systems have many advantages. They are simple to

install and to operate, cheap to maintain, long lasting and capable of constant service without the attendance of an operator. The disadvantage of some of the systems, though not of all, is that they are not private, and conversations between two stations can be heard by another or others if the latter happen to break in on the connection.

Executive Systems.

The so-called executive systems are those which radiate from one executive instrument, being usually installed to enable the principal or manager of a business to get into immediate and secret touch with the various departments without having to use a receiver and without having to speak into a mouthpiece.

One of the best of the various systems is the Dictograph.

FIG. 22.—The Dictograph Master Station.

At the master station (in the principal's room), and at each of the other stations, there is a box containing a transmitter fitted with keys for calling each of the other stations. A receiver also is attached, though at the master station this need only be used when it is desired to keep the replies inaudible to any other person in the room.

From the master station it is merely necessary to lift the call key of the station or stations called. The person at the station called will be attracted by a buzz, and a small lamp fitted to the box will indicate that the master station is calling. The sub-stations called lift off their earpieces, switch over the key of the calling station and speak. The mouth can be kept at a distance from the box. At the master station it is possible to speak and to hear replies from any part of the room without handling the earpiece, and without further touching the instrument. Sub-stations call by switching over the key of the station they want, and at the same time depressing a special call key. The small lamp ensures that a sub-station, even though conversing with another sub-station, may know if the master station calls. The makers now supply a model which

incorporates a "dialling" system and is suitable for any number of stations.

Pneumatic Tubes.

These are largely used for the conveyance of documents, etc., to the various parts of a building, the article to be conveyed being enclosed in a small cylinder which is blown by air pressure along a tube. A similar system makes use of overhead carriers, in which case the conveyer is usually propelled by an elastic force one way, whilst it proceeds by its own weight down an incline in the other direction. These systems are frequently in use in large departmental stores for the transmission of cash and receipts between salesmen and the cash desks.

Telewriter and Teleprinter.

A modern device for communicating messages is the *Creed Telewriter* or *Teleprinter*, whereby written or typed messages

FIG. 23.—Creed Teleprinter.

may be despatched almost simultaneously by telephone or telegraph lines, whichever is available. The movement of a pen or of a key at one end of the line produces a corresponding movement at the other end, so that the corresponding symbol or character is produced. The apparatus can be operated by anyone, though the Teleprinter, which sends typewritten messages, requires ability to use a typewriter keyboard.

Transmission on the *Telewriter* is made by the use of a pen, which writes on a visible pad, the message being automatically rewritten on a pad at the other end of the line. The use of this instrument eliminates error, since the written word is always more reliable than the spoken, and can be made to eliminate fraud, since facsimile signatures can be communicated in just the same way as any other written matter. It also has the

advantage that messages may be automatically received and recorded during the absence of the recipient.

Teleprinter transmission may be effected either by direct keyboard operation or by automatic tape operation, in which case the messages are first perforated on a paper tape by means of a keyboard perforator, and then the tape is fed through an auto-transmitter. The second method is used where the message is to be relayed (see below), but the first has the advantage of providing a typed master copy of the message.

Reception by the Telewriter is in the form of a facsimile of the written message, *i.e.*, in handwriting. By the Teleprinter reception may be in the form of (1) tape-messages in Roman characters; (2) page printing, in which the message is printed on pages about 8½ in. wide; (3) perforated tape-messages, where it is possible to pass the tape through an auto-transmitter for relaying to other stations. By the last method branches may communicate through a central station without the necessity of having lines between each pair of branches.

MECHANICAL TIME RECORDERS

The importance of ensuring as accurately as possible a record of the time put in by various classes of employees has already been stressed, and nowadays there are few concerns of any size which have not installed mechanical devices for maintaining such records. Times for leaving off work for lunch hours, rest periods or at the end of the day should be announced by the sounding of bells or of a hooter which can be heard throughout the premises. By this means it can be ensured that no members of the staff leave too early, and that the more diligent workers are properly warned as to when they should leave off work.

Ensuring that all employees *start* work promptly is a matter of greater difficulty, though there exist a large number of mechanical devices which minimise the employer's difficulties in this respect.

The Tally System.

Under this system each man on engagement is given a number and four brass tallies, numbered 1 to 4, each bearing also the office or works number which has been assigned to him. Tallies 1 and 3 are large, 2 and 4 are small.

A box is placed at the entrance to the office or works, and those arriving at the proper time in the morning put their tallies numbered 1 through a slit in the box. The box is removed when the hour for beginning work arrives and is taken to the wages clerk, who, by means of the numbers on the tallies, is able to make up the time sheet. A box with a smaller slit is then substituted, and those who arrive late place their tallies

numbered 2 in this box, which is removed at the end of the time (a quarter or half an hour) allowed by the management. The wages clerk is then able to make the necessary deduction of time when preparing the time sheet. Tallies numbered 3 and 4 are similarly used for the second part of the day.

The tallies are placed on a numbered board at the entrance before the men leave work for the day. The workmen take them off as they go out, and use them in a similar manner on the following day.

Mechanical Time Recorders.

There are several types of time recorders on the market, and although individual requirements differ widely it is safe to say that a recorder can be obtained to suit every business. All recorders work in conjunction with a clock. Each employee is allotted a number, and by means of a key, or a pointer, or by pressure, according to the system, the clock automatically records against each man's name or on his particular card the exact time of his arrival or departure. From the record obtained within the clock case or on the separate card, the wages clerk is able to make up the time sheet. In some cases a combination of the clock and the tally system is in use.

In favour of systems of automatic time recording are the advantages that :—

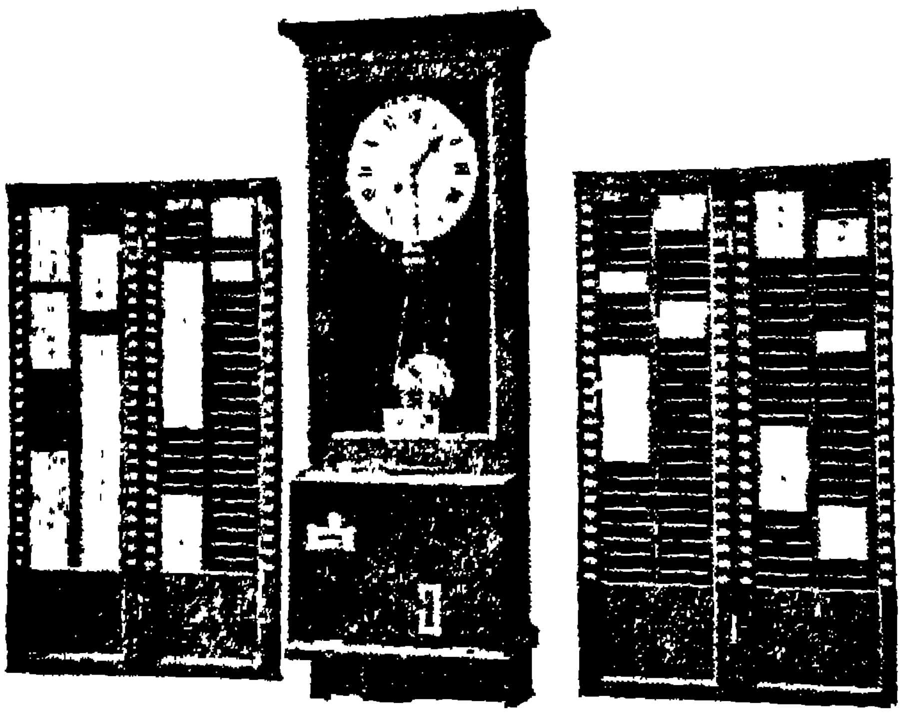
(*a*) They record to the minute the time of each employee on his own time card; they do this impersonally, justly and with scientific accuracy.

(*b*) They eliminate guesswork and make costing an exact science so far as labour costs are concerned. They eliminate all the risks of error and forgetfulness that are well known under the old system of making up the time sheet at the end of the day, when the employee or workman has to study the various jobs on which he has been engaged, often resulting in unreliable details, some jobs being charged with more time and others with less than has actually been spent on them.

(*c*) They reduce overhead costs.

The Gledhill-Brook Time Recorder.

This is one of the best known and most satisfactory of time recorders. A numbered card is allotted to each employee for use either during a given period or on a specified job, and these cards are stored in the racks provided. On arrival, the employee extracts his card from the " out " rack, stamps it in the machine and then inserts it in the " in " rack. Similar operations take place as the employees leave work at noon, recommence work in the afternoon and leave at night.



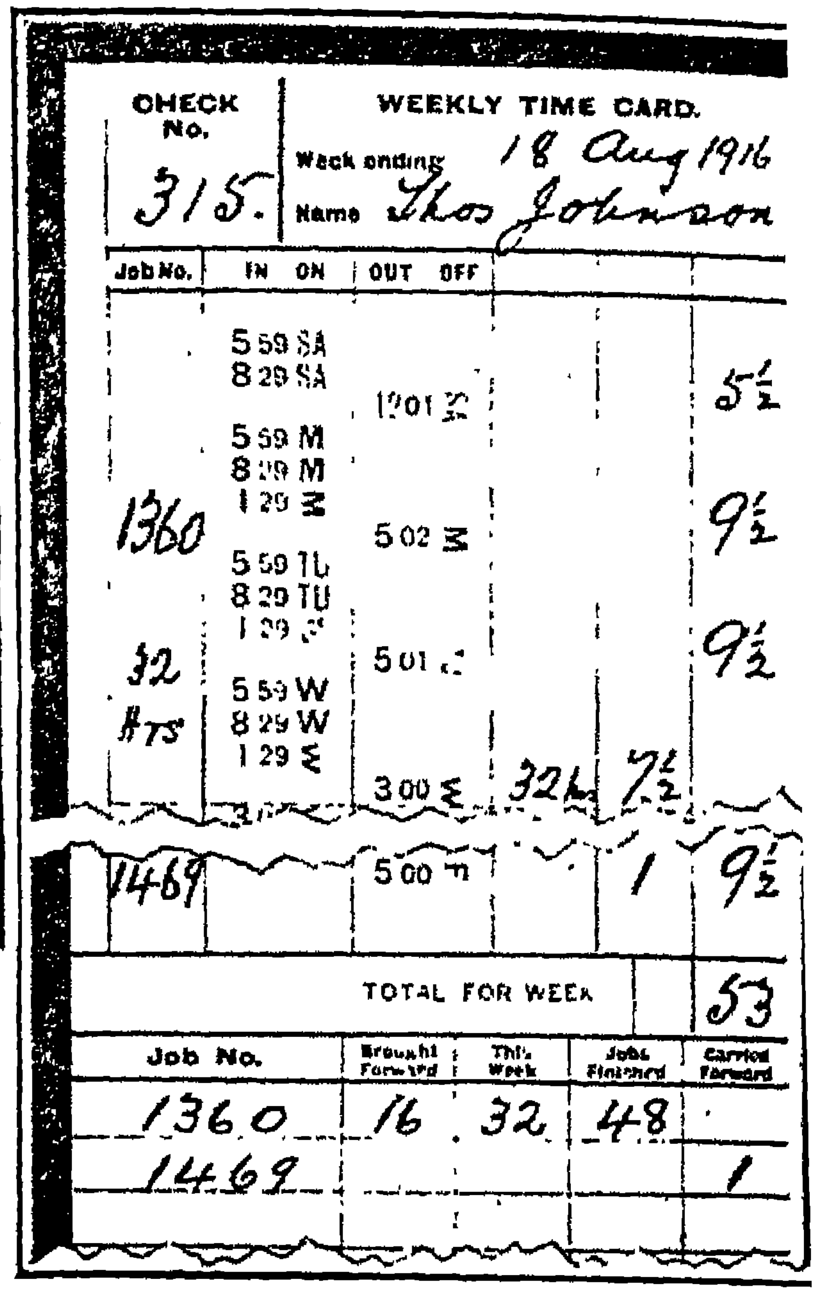


FIG. 24.—**Gledhill-Brook Time Recorder and Weekly Time Card for use therewith.**

The following advantages are claimed for this system of time recording :—

(*a*) The whole operation can be performed at walking pace; there is no hold-up of employees in a queue.
(*b*) The employee sees for himself the time recorded for him. He can compare it with the clock and check its accuracy.
(*c*) It is impossible for the employee to manipulate his record.
(*d*) For A.M. time the day letter is printed vertically, for P.M. time it is printed horizontally. This eliminates any possibility of "wangling" or confusion as to the period of the day.
(*e*) The cards are easily sorted for accountancy purposes and can be distributed among several clerks if desired.
(*f*) The card racks can be folded and locked during working hours.
(*g*) The hours worked by each employee can be extended at any time, so that much of the clerical work can be completed before pay day.

Time and Production Cost Systems.

The system of automatic time recording can be most advantageously applied to determine the cost of labour ex-

pended on each particular job. The Weekly Card shows on the front the time of arrival and leaving work, and on the back what jobs the employee has been engaged upon during the week, and how much of that time was productive and how much was unproductive. Differently coloured cards may be used to indicate the various operations.

The employee clocks the weekly time card " IN " morning, " IN " noon, " OUT " night, and the cost clerk, foreman or workman clocks the various job cards as indicated at the time when the jobs are started, changed over or finished. At the end of the week the job cards are summarised and the totals entered on the back of the weekly time card to prove that all

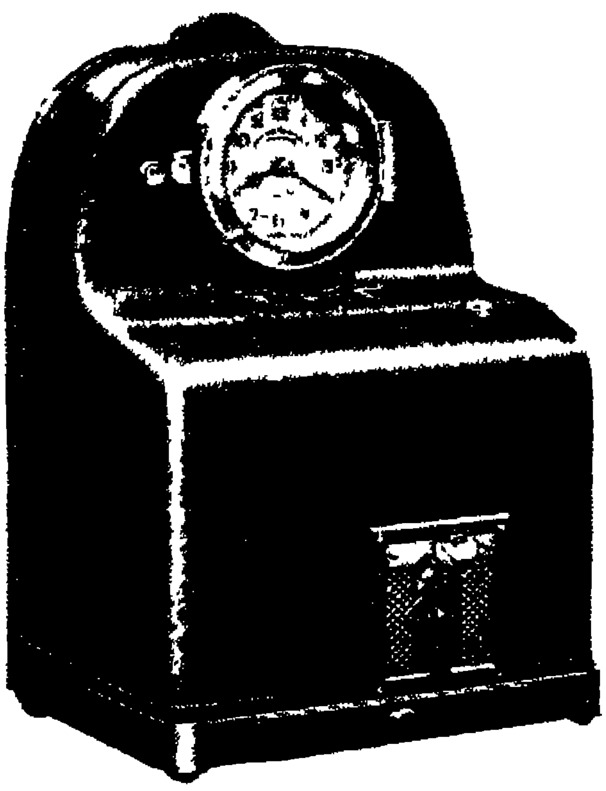


FIG. 25.—Portable " Clipit " Time Recorder.

time paid for has been accounted to jobs. The job cards are ruled off for the week, ready for receiving time stampings for the next week. One card takes the time records of the job until completed and shows the time spent on that job every week.

The weekly summary on the back of the time card can be posted to the respective columns in the weekly wage dissection summary.

COMBINED TIME AND JOB CARD.—This system is very suitable for works where jobs are completed by one man, and particularly where long runs are made. The " IN " and " OUT " time is recorded on the card as well as the time when jobs are changed. The time on the job is cast out at the side of the card and the total hours entered into the job number column under the job number. This card gives the complete time cost of all jobs that are finished during the week, without transferring a single figure from the card. Unfinished jobs are entered at the foot, the total hours worked up to the week-end being

entered in the column headed "Carried Forward," and transferred to the next week's time card in the column "Brought Forward." Any time worked on this job during the following week is entered in the column "Time for this Week." If the job is completed during the second week, the total is added and entered in the third column under "Finished Jobs"; if the job is not completed, the total is entered in the fourth column and carried forward to the third week, and so on until the job is completed.

If the job is one on which several men are engaged, it is advisable to post the weekly total to a cost card or cost sheet, which would show the total time spent by all men on the job each week.

This system is about the simplest that it is possible to devise, though the question of its suitability must be decided by each firm according to the nature of the work being performed.

Portable Recorders.

Apart from the large time recorders described above, there are on the market a number of small portable types which may conveniently be used individually in small works or repair shops, or in multiples in large factories and business premises. Of these, the "*Blick*" time recorder and the "*Clipit*" recorder are among the best known.

The Gledhill-Brook Desk Autograph.

Another convenient type which has been designed for use in an office, shop, warehouse or garage, where the staff is small but where the need for punctuality is vital, is that which involves "signing on" by each employee.

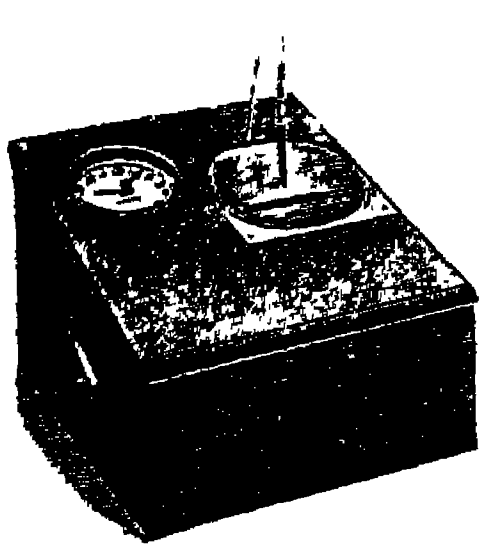


FIG. 26.—Gledhill-Brook Desk Autograph.

On entering, the employee turns the operating handle at the side, thus printing the exact time of arrival and uncovering the writing-down space. He then signs his name opposite the printed time and releases the operating handle, which automatically closes the writing-down space until the next entry.

The Desk Autograph is especially suitable for use amongst salaried staffs who are not paid by the hour, but whose efficiency needs to be maintained by an ever-present reminder of the need for punctuality, without exposing the chief of the staff or employer to the unpleasant task of personal espionage.

Various models can be obtained to print the hour and minute, the day, hour and minute, or the day, hour and minute both before and after signature.

Key Recorders.

These machines register the times of arrival and departure of the staff on a continuous strip of paper, which is taken out of the machine as and when required in order to inspect the record or to make up the wages book. Each employee is assigned a number and a key bearing that number.

When not in use the keys are kept in racks on hooks num-

Fig. 27.—**National Radial Time Recorder.**

bered to correspond with the keys, an " in " and " out " rack being used. By inserting and turning the key in the aperture provided, a strip of paper inside the machine receives a printed impression of (*a*) the correct time from the time dial, and (*b*) the employee's number from the key itself. As the employees' arrivals are recorded in chronological order, all late-comers are recorded together, and, as there is a key for each employee, the absentees are noted from the fact that their keys remain on the " out " board. The machine does not need frequent replenishing and its capacity is unlimited, an increase in staff requiring only additional recording keys.

The Radial or Sheet System Time Recorder.

Various models of the radial or dial type of machine may be obtained for daily records or for weekly time and wages sheets combined.

On arriving or leaving, each employee turns the pointer and inserts it in the hole in the dial corresponding to the number allocated to him. The time as shown by the clock is thereupon printed opposite the employee's number on a sheet enclosed in the machine.

Four, six or eight registrations can be made for each day, whilst models may be obtained for printing in two colours —blue for ordinary time registrations and red for irregular times, whether the latter represents lateness in arrival, whereby time is lost, or lateness in departure, signifying that overtime has been worked.

The machines are automatic in their selection of the column, representing the day of the week; that is, the drum on which the sheet is fixed moves according to the expiration of time as recorded by the clock. Glass doors are fitted on either side of the recorder, through which the record may be inspected, and machines are available for use by fifty, one hundred, one hundred and fifty, or two hundred employees.

QUESTIONS BEARING ON CHAPTER 13

1. Describe the use of the following labour-saving devices: Calculating machine, Listing machine, Rotary multiplier.

2. Suppose you had to send by post 3000 letters or circulars, how could you avoid the labour of stamping them, and what are the rules you would need to observe? (*London Chamber of Commerce, Certif.*)

3. Give a detailed description of any four office machines or appliances. explaining their uses and advantages. (*S.A.A., Inter.*)

4. What mechanical devices would you install to facilitate intercommunication between the various departments of a business?

5. Describe three copying processes, stating in each case for which types of business they are suitable.

6. Describe six devices which add to the efficiency of the mailing-room.

7. What advantages have printing machines over duplicating machines? For which businesses is each suitable?

CHAPTER 14

ADVERTISING AND PUBLICITY

BROADLY speaking, the object of all advertising is to create a new demand, *or* to increase an already existing demand, *or* to accelerate the realisation of a potential demand. The demand may be for goods or for services, but in either case, as a general rule, prolonged advertising is of little use unless the particular commodity or service is produced under conditions of increasing returns; for there is no object in spending money for the purpose of increasing or creating a demand for goods if the increased supply necessary to meet that demand can be produced only at a higher price—the possible existence of constant returns may be ignored since such a state rarely exists.

The method to be adopted will depend largely on the type of commodity, and especially on the character of the clientèle. As each method of advertising has its peculiarities, any attempted classification of the various methods in use must necessarily be arbitrary, but for present purposes the following is satisfactory:—

(1) Press publicity.
(2) Circularisation.
(3) Outdoor display.
(4) Internal publicity.
(5) Bonuses and samples.
(6) Fairs and exhibitions.
(7) Personal approach.

Press Publicity.

Press publicity, perhaps the most widely used of all types of advertisement, includes all forms of publicity carried out through the medium of the General and Special Press. In choosing the organ to be used, an advertiser has to consider: (1) the type of person interested in his product; (2) the general nature of the readers of the various available newspapers or magazines; (3) how wide a circulation the advertisement will receive; (4) the cost of using each medium. Briefly, the periodicals used by a concern for advertising its goods will depend essentially on the available or potential market for those goods. The markets for any one commodity may be few or many, restricted or wide. There are household markets, office markets, teachers' markets, students' markets, and so on, almost *ad infinitum*, and each of these has its many subdivisions. The household market covers the house itself and the garden; students' markets include accountancy students, secretarial students, engineering students, and many others.

Such facts must receive the advertiser's careful consideration. Hovis bread can be advertised almost anywhere, though mainly in those journals which are found in the home. Office appliances can be advertised only in periodicals which circulate among business men—secretaries, office managers, and the like. One would expect to find advertisements of a Court dressmaker in the *Times* newspaper, not in the *Daily Herald.* On the other hand, some commodities as, for example, pedal-cycles, would be advertised in the latter organ rather than in the former. It is for this reason that, in the advertising world, periodicals (in which term are included daily and weekly newspapers, magazines and "weeklies") are divided into two broad classes of "high-grade" and "low-grade." The former advertise high-grade articles, *i.e.*, articles of first-class quality and high price, and the latter lower priced goods and lower grade articles.

In addition to the general press organs, there are others in great variety which have special functions. These include *trade organs* applicable to a given trade or profession, in which the advertisements are usually concerned with commodities largely used in that trade, whilst others are concerned with a particular hobby or recreation, in which case the advertisements will be designed to appeal to the supposed tastes of the readers.

House-magazines, produced and published by large concerns with the ostensible object of promoting the interest of the employees serve a dual purpose in that they react to the welfare of the staff, and also serve to enhance the prestige of the firm and bring its products to the notice of the public under the guise of stories, articles, cartoons and so on.

All press advertising is at first largely a matter of experiment. Each advertiser learns by experience which organs bring him the best results, and he plans his future campaigns accordingly. In order to reduce the period of experiment to a minimum, large concerns usually appoint an *Advertising Manager* or *Publicity Manager*, who specialises in this work and makes it his business to follow the taste of the public, and especially of that section among which his firm is most likely to find business. Smaller concerns which cannot afford the large salary required by an efficient publicity manager place their entire publicity routine in the hands of an advertising or publicity agent. This applies especially to general press advertising, for the publishers of newspapers and like periodicals prefer to deal with agents in order to ensure a regular advertisement income.

In this connection it does not seem to be generally understood that the services of an advertising agent cost the advertiser comparatively little, for the agent receives his remuneration in the form of commission on the cost of the insertions from the publishers of the various media used. Apart from this, there is the advantage that an agency is frequently able to secure, for

regular customers, some degree of cheap publicity in the form of *editorial* "write-ups" or "puffs," as they are technically called.

Editorial Publicity.

This refers to the system of inserting in the "news" or "editorial" columns of newspapers or journals articles which refer appreciatively to the goods of the advertiser. This form of publicity is most successful because, whilst the news columns of journals are read by nearly all readers, the columns for advertisements are often completely ignored. It is, however, a difficult matter to obtain such publicity. As regards the general press it is almost impossible, and is certainly very expensive unless there is some news value in the article. On the other hand, notes on technical developments, and similar topics from businesses whose products are not of interest to the general public, *e.g.*, manufacturers of machinery, are usually accepted readily by the editors of trade journals, provided they are assured of their accuracy.

Circularisation.

This includes postal, house-to-house and street circularisation. The drawback in the case of broadcast literature is that many persons will be circularised to whom the article in question has no appeal. This difficulty can be overcome to some extent by the use of trade directories, from which lists of persons likely to be interested may be compiled, or by using the services of firms which supply this information. Frequently, retailers who resort to circularisation estimate the social class of the recipients according to their addresses, but even then there is much waste since the sender has no means of judging the tastes of the persons approached.

As a rule, the Post Office is used for this type of publicity, but sometimes the circularisation is carried out by house-to-house or street distribution of handbills.

Outdoor Display.

Under this heading are included poster advertising, sky-signs, sky-writing, special displays, cinema films, car bills and exhibitions. The reader will have experience of each of these forms of publicity, and it will take but little to convince him that their value rests almost entirely on their capacity to "hit the eye" or appeal to the imagination of the public.

This end may be achieved in a number of ways. Noise, colour, originality, movement—each is made to play its part in attracting, and, what is more important, fixing the public attention on the commodity advertised.

The same considerations arise in connection with this as with other forms of publicity, namely, cost, extent of appeal and probable results on sales. In deciding which particular form of publicity to adopt, the prospective advertiser will weigh up their relative merits, considering each from the standpoint of the commodity he himself has to offer.

Many businesses owe their rise largely to the use of some "*slogan*" which has appealed to the public ear or eye and has brought huge sales. The reader will have little difficulty in recalling examples of such slogans as, for example, "Worth a guinea a box" and "Buy British and Be Proud of It."

Trade-Marks.

Very frequently the name or mark under which a particular commodity has been marketed for many years is in itself a valuable slogan. The mark, or name, has become so firmly impressed in the mind of the public that its use is a matter of immense value to the concern owning it. It is, therefore, not surprising that legislation should have been introduced to protect the use of what are known as "trade-marks."

The registration of trade-marks was first required by the *Trade Marks Registration Act*, 1875. The Act has been amended at various times, and the whole of the legislation dealing with the matter was consolidated in the Act of 1905. This Act defines a trade-mark as "*any mark, device or stamp attached or affixed to manufactured goods, which indicates to the public that the goods have been manufactured or otherwise dealt with by the person who attached the mark.*" The mark must contain or consist of at least one of the following :—

(*a*) The name of an individual, firm or company, represented in a special manner.
(*b*) The signature of the applicant (for registration) or of some one of his predecessors in business.
(*c*) An invented word or words.
(*d*) A word or words having no direct reference to the quality or character of the goods, and not being a geographical name or surname.
(*e*) Any other distinctive mark (but any application under this clause will be granted only by order of the Board of Trade).

Registration may be effected by application in a prescribed form to the Controller of the Patent Office. If the application is granted, the trade-mark is registered, and the proprietor obtains a *prima facie* right to its exclusive use for a period of fourteen years. At the end of this period the registration may be renewed for a similar period, and so on. Usually, application for registration is made through the intermediary of an agent who specialises in the business. A Register of Trade-Marks is

kept at the Patent Office in which are entered particulars of the names and addresses of the grantees and of any assignments which may be made. From this it will be obvious that a trade-mark may be assigned, but assignment may take place only at the same time and in conjunction with the assignment of the goodwill of the business with which the trade-mark is connected.

Protection of Registered Trade-Marks.

The Merchandise Marks Act, 1887, provides that it is a criminal offence punishable by fine and/or imprisonment for any person to forge a trade-mark, or to apply falsely to goods any mark which so nearly resembles a registered trade-mark as to be calculated to deceive. In addition, the goods concerned may be forfeited and destroyed. Furthermore, a trader is not entitled to pass off his goods as those of another trader by selling them under a name which is likely to deceive purchasers into believing that they are purchasing goods of that other trader, even though in its primary meaning the name is a true description of the goods.

By the same Act it is provided that on the sale or in the contract for the sale of any goods to which a trade name, or mark, or trade description has been applied, the seller shall be deemed to warrant that the mark is a genuine trade-mark and not forged or falsely applied, and that the trade description is not a false trade description within the meaning of the Act, unless the contrary is expressed in some writing signed by or on behalf of the seller and at the time of the sale or contract delivered to and accepted by the buyer.

The Merchandise Marks Act, 1891, provides that the customs entry relating to goods imported (see Chapter 35) shall, for the purposes of the Act of 1887, be deemed to be a trade description applied to the goods, and powers are conferred on the Board of Trade to prosecute in cases where it appears to the Board that the general interests of the community, or of a section of the community, or of a trade, are affected, if the quality, nature or origin of the goods are wrongly described.

British manufacturers or sellers of goods having a trade-mark are further protected by the *Merchandise Marks Act*, 1911, which enacts that where imported goods, which, if sold, would be liable to forfeiture by the Act of 1887, bear a name or trade-mark which is, or appears to be, the name or trade-mark of any manufacturer, dealer or trader in the United Kingdom, and it appears that the use of the name or trade-mark is fraudulent, the officers of Customs and Excise may require the importer or his agent to produce any documents in his possession relating to the goods, and to supply the name and address of the consignor and consignees, and any information so obtained may be furnished by the Customs to the person whose name or trade-mark appears to have been used or infringed.

Still further steps to protect trade interests were taken by the *Merchandise Marks Act*, 1926, which made more effective the provisions of the 1887 Act by extending its prohibition to any "exposure for sale" of goods bearing a trade-mark wrongfully used. This Act also gave the Board of Trade power, by an Order in Council, to require imported goods of any class or description to be marked, prior to sale or exposure for sale, with an indication of their origin. Such action was to be permissible, however, only if it would not be prejudicial to the trade of this country or to the trade of other parts of the Empire with the United Kingdom. Provision was also made for the marking of agricultural produce (for which the Ministry of Agriculture and Fisheries had been pressing) and for the distinction of Empire from foreign produce.

Internal Publicity.

This is a form of advertisement which is sometimes referred to as "*unconscious*" publicity, and covers such matters as the position and general appearance of the business premises; the equipment of the premises; the appearance of the goods; the attractiveness or otherwise of the correspondence sent out, and the appearance and behaviour of the staff. The term "unconscious" is applied to these from the publicity standpoint, because many firms are unconsciously doing themselves a great deal of good or, on the other hand, much harm by the attention or lack of attention which they give to these matters.

A ramshackle factory or office, a badly-packed parcel, a slovenly-looking manager, will do harm to the prestige of the business just as assuredly as a smart, up-to-date factory and a neat and well-typed letter will tend to enhance the reputation of the firm. In all these matters, which are only too often neglected, strenuous efforts should be made to achieve perfection.

Instances come readily to mind of concerns which exploit this form of publicity to the utmost. The example may be cited of a well-known firm of seed and plant merchants who have laid out their imposing premises alongside a main railway line; the buildings are surrounded by well-kept gardens and the whole is displayed at night-time by the skilful use of "floodlighting."

With regard to outgoing correspondence, several important points may be noted. The paper should be strong and of good texture; the heading should be clear and ought to contain the full postal address, the telephone number or numbers, the telegraphic address, the cable address (if any) and (in the case of firms doing foreign business especially) particulars of the codes used. There are certain defects which spoil many headings. Frequently, the heading is set in six or seven different kinds of type, large and flamboyant representations (one might almost say *mis*-representations) of the firm's premises are spread-eagled

across the top, whilst the margins are encumbered with numerous clauses as to the conditions under which sales and payments must be made. The result is a complicated and untidy mass of print. In all cases the aim should be simplicity and clarity, and, if this is achieved, an important step will have been made towards attracting favourable attention to the correspondence.

The matter of window-display might well be treated under this head, but, since it applies essentially to retail business, it is reserved for Chapter 29.

Bonuses and Samples.

In the retail trade especially, there has been of recent years a growing tendency to boost sales by offering special inducements to the consuming public in the form of special "sale-time" reductions in prices, by awarding free gifts, by organising competitions and so on. This form of publicity has in its favour the fact that it is attractive to the public because the consumer is given part at least of the benefit: instead of the whole cost of the publicity going into the hands of press and other agents, the consumer takes a share.

The offer of special price terms to attract attention is especially predominant in seasonal trades, where, during slack periods, goods are offered at prices little above cost price, with the avowed object of "keeping the works going."

The distribution of free samples is another form of publicity which is used mostly in the retail trade. This method has the advantage of appealing to the public, who are given a free chance of testing goods before they buy them. With this form of publicity, however, more than any other, it must be remembered that a bad advertisement is worse than none at all.

The offer of free gifts in return for coupons has assumed such large proportions in recent years as to have led to the setting up of a Committee by the Board of Trade to consider whether it was desirable that steps should be taken to curb the practice. The Committee was set up as a result, mainly, of the complaints made by retailers that they were suffering from the distribution of free gifts which would otherwise have been bought from them.

The Committee's report, however, indicated that the complaints of the retailers were grossly exaggerated, since the volume of trade affected was almost negligible, and since many of the goods distributed would not have been purchased in the absence of a gift scheme.

In favour of coupon trading, it may be said that it is a form of advertising from which the consumer derives at least some benefit. He receives goods whose retail value is, indeed, greater than their cost to the advertiser (since the latter buys the gifts at wholesale prices); consequently, the consumer receives better value than he would if the advertiser were to eliminate the

coupon system and utilise the saving in reducing the cost of his goods.

From the standpoint of the advertiser, the coupon system is undoubtedly a highly effective method of advertising, since it not only creates a demand but also leads to a *sustained* demand. Moreover, some advertisers use their coupons to boost other lines and thus obtain additional publicity. On the other hand, the "coupon war" in the wholesale tobacco trade some years ago demonstrated that the coupon system can be carried to such lengths by competing firms as to jeopardise not only their own position but also that of the whole industry, with the result that, ultimately, the competitors may be forced to agree to give up the system altogether.

Fairs and Exhibitions.

With the great improvement in transport in modern times the importance of Trade Fairs has gradually diminished, and the fairs of to-day have, in many cases, developed into centres of amusement, lasting only a few days. On the continent of Europe, at such places as Frankfurt-on-Main, Vienna and, of course, Leipzig, and in the East, as, for example, at Mecca and Allahabad, large fairs of commercial importance are still held; but, in the majority of cases, the fairs held at the present time in England are confined to the sale of agricultural produce and farm animals.

Many of the larger fairs have become of such importance that it has been necessary to provide the amenities usually associated with an exhibition. An example of a fair which has assumed within recent years the nature of an exhibition is the "British Industries Fair," wherein the exhibits include every type of manufactured article produced in these islands. So large has this fair become, that it has now to be held in two sections running simultaneously in London and in Birmingham.

A trade exhibition is in reality a large fair in which numerous producers gather together to display their goods to the wholesalers and to the general public. It is one method of advertising, and, although expensive, it frequently reaps a handsome reward. Apart from the display of goods, exhibition publicity takes the form of the sale of samples and the distribution of literature. In some cases, too, a part of the exhibition is devoted to a general survey of the industry, where the interest of the public is attracted by a display of devices used in particular processes and stages of manufacture.

To be successful in its primary object, *i.e.*, the furtherance of international trade by interesting a wider public and obtaining new customers, an international exhibition must itself be extensively advertised beforehand. The business men likely to be interested must be circularised to induce them to take part, and the general public, particularly the wholesalers dealing in

the type of goods to be shown, must have the exhibition brought to their notice in an attractive manner. The expense entailed in the organisation of a large exhibition is very heavy, and must be borne initially by the promoters, who recoup themselves from the proceeds of rent for floor space and admission money paid by the visitors to the exhibition.

One disadvantage of international exhibitions is that the display of an article may divulge a trade secret and may even lead to its imitation and improvement : it is because of this fact that many business men view them with disfavour. On the other hand, such an exhibition affords a first-class opportunity to acquire a good knowledge of trade conditions in other countries, for it saves the business man the trouble of extensive travelling and of linguistic difficulties.

Local Exhibitions.

Local or specialised exhibitions may take the form of a display of goods or manufactures of a particular kind, or of the products of a particular county or district. The annual Motor Trade Exhibition held in London is an example, although this is to a certain extent international in character, since it attracts exhibits from all the well-known foreign car manufacturers and brings buyers from all over the world. Such exhibitions are well patronised by local business men, as the expenses entailed are not usually so heavy as in an international exhibition ; moreover, new customers can be obtained within the local sphere of the manufacturer, who may prefer to confine his attentions to the home market. The *Daily Mail* " Ideal Homes Exhibition " and the " Business Efficiency Exhibition " are well-known examples.

Personal Publicity.

This description is intended to cover all forms of advertising by the " personal touch." It comprises the activities of shop-walkers and counter-salesmen ; travellers and representatives ; manufacturing, importing and exporting agencies. Since the particular method of personal advertising to be adopted depends entirely upon the nature of the business, a closer study of the question will be postponed to later chapters : it is sufficient here to indicate the essentials which must always be observed.

In the first place, the salesmen must know their goods and the uses of them. Next, they should be trained to make courtesy their motto and service their goal—many large firms have attained their present position by the adoption of the slogan, " The customer is always right." Thirdly, the salesmen should be backed, as strongly as possible, by well-printed literature—smart catalogues and price lists are always useful weapons. Finally, it has to be remembered that, as poorly-paid salesmen easily become dissatisfied and may do more harm than good,

miserliness in remunerating the sales force is one of the most short-sighted forms of economy.

Testing Results.

An advertising campaign is not completed by the mere expenditure of the necessary sum of money. It will be almost worse than useless in any progressive concern unless results are watched closely, and the effect on sales efficiently and clearly recorded. Where several advertisements are inserted in periodicals, etc., simultaneously, the result of each advertisement is discovered by means of "keying," which is carried out in one or more of the following ways:—

(*a*) By means of a variation in the address. Thus, if the address is "216–220 Park Street," the advertisement in one paper may give the address as "216," in another "217," and so on.

(*b*) A "key" may be inserted, as "Department A," "Department B," etc., in which case the advertisement in a given paper may read, "Apply to Jones Bros. Ltd. (Dept. A), 117, East Street, London." Answers will mention the department and thus reveal the source from which the enquiry has emanated.

(*c*) A coupon may be attached to the advertisement with a request that all enquiries may be accompanied by the coupon.

(*d*) In some papers a note is inserted asking that the name of the paper be mentioned in replies to advertisements. ("When replying to advertisers, please mention . . . *Magazine*.")

Methods (*a*), (*b*) and (*d*) above are not, of course, infallible, as the advertisement might have been seen in more than one paper before it was answered.

A card index should be kept for advertising records. A suitably ruled card should be made out for each advertisement, and the number of enquiries induced by the advertisement should be entered each day or week, as the case may be. By the use of coloured tabs on the cards attention will automatically be drawn to each advertisement when the time draws near for the renewal of the contract for its publication.

Follow-up Methods.

Most businesses which indulge heavily in advertising find it profitable to institute a suitable "*follow-up*" system. This involves the keeping of an index of all enquiries received, whether or not they spring from advertisements. When an enquiry is received and answered, a record is made of it, and further events are awaited. If nothing more is heard after the lapse of a reasonable time, a follow-up letter is sent, and if nothing transpires from that, yet another appeal is despatched.

Follow-up letters are usually sent out in a standard form, and may be duplicated. As a rule, each successive follow-up is couched in slightly more intimate language than its precursor, and sometimes the later letters are specially typed and are signed by the manager in person, in order to create the impression that the enquirer is the object of special interest. This is calculated to appeal to the susceptibilities of the consumer, and there is little doubt that the system often has the desired effect.

When an enquiry has developed into an order, the record on the relative card is completed. In this way, each card relating to a particular advertisement ultimately shows full particulars of the cost of the advertisement and of the number of enquiries and orders received. For purposes of comparison, the cost per enquiry and per order may then be calculated.

Steps in an Advertising Campaign.

An advertising campaign may be either "*extensive,*" *i.e.*, spread over a wide area; or "*intensive,*" *i.e.*, confined to a narrow area or class but carried out very thoroughly. A more or less standardised procedure may, however, be indicated :—

(1) Those in charge of the publicity must have an intimate knowledge of the commodity to be advertised.
(2) A close study must be made of the class of person likely to be interested.
(3) A decision must be made as to whether the advertising shall be intensive or extensive.
(4) The form of the advertisement must be evolved.
(5) A system must be prepared for keeping records of results and following up enquiries.
(6) The territory to be covered by the campaign must be clearly defined.
(7) A wary eye must be kept on costs and on the results of the campaign.

Is Advertising Uneconomic ?

The cost of advertising in an advanced community is colossal, and it is popularly considered that the whole of the expense is borne by the consumer. Whilst it is doubtless true that if all advertising could be abolished the prices charged to consumers would probably drop proportionately, yet it should be borne in mind that advertising, by widening the demand for goods, facilitates production on a large scale and results in a saving of production costs which reacts to the advantage of the consumer in the form of lower prices.

When an advertising campaign is unsuccessful, *i.e.*, when sales do not increase proportionately, there is a waste of effort, but in such a case the loss is borne by the producer. Waste occurs also where the publicity is *overdone*, as it may be when there is intense competition for a special market. The com

may be said of all those forms of advertising which cannot do anything but transfer custom from one producer to another whose products are for all practical purposes identical. But some justification for this form of waste may be found in the contention that the expense incurred is the price of competition, *i.e.*, an insurance against monopoly.

It is not often possible for an advertiser to estimate what proportion of his advertising expenditure is economically justifiable. There is no means of telling whether, and, if so, to what extent, the increased demand for his goods springs from a created demand or from the transference of custom formerly enjoyed by his competitors.

QUESTIONS BEARING ON CHAPTER 14

1. Enumerate the different methods of advertising an article for sale, and show what is the real function of advertising. (*C.A., Inter.*)

2. What are the various methods of finding buyers for goods ? State broadly to what classes of goods each method is applicable. (*R.S.A., Stage II.*)

3. Explain how a manufacturer or a wholesaler would determine which newspapers or periodicals are the best for the advertisement of his product.

4. What are the advantages of direct circularisation as a means of selling goods ?

5. Briefly explain the effect and advantages of a trade-mark and give some well-known examples.

6. Discuss some of the factors appertaining to the internal organisation of a business which are important from a publicity standpoint.

7. What are the chief objects of Trade Fairs and Trade Exhibitions ? Give some examples to illustrate your answer.

8. It is sometimes suggested that money spent on advertising is wasteful. Justify or criticise this statement.

CHAPTER 15

REWARDING THE HUMAN FACTOR

BROADLY speaking, two principles of wage payment have been evolved : (1) Payment for *time spent* on work ; and (2) Payment for *work done.*

The attitude of employers and employees towards these two systems varies considerably. From the standpoint of social justice, other things being equal, both parties tend to prefer payment by results, but other considerations make the two view-points widely divergent. Very broadly, employers prefer *piece* rates, *i.e.*, payment by results, while the workers favour *time* rates.

Time Rates.

Though the system of time earnings cannot be successfully applied in all industries, it is the method which is used most widely in industry. It has the advantage of being probably the oldest known method and is most easily understood by all classes ; also, from the standpoint of both employer and workman, it means certainty and regularity, and under ordinary conditions difficulties as to the amount or date of payment cannot arise.

More concrete are the advantages which affect the quality of the product. Time wages are almost inevitable in trades in which delicate and expensive instruments or machines are used, or in occupations where unremitting care and attention are required. In such conditions, piece rates are unsuitable, for hurried or "scamped" labour may result in considerable loss, in regard both to the product and to the appliances used. The time system of wage payment is the only possible method in occupations where the amount of work done cannot be measured or accurately compared with any available standard, as in supervisory and managerial work, and, to a large extent, in repair work.

The time system, however, has the disadvantage that it tends to encourage slackness, as it offers no special reward for extra efficiency or effort. Indeed, the slack worker may gain indirectly from the efficiency of the quicker worker, as the total product is increased by the efforts of the latter. This is particularly true when it is difficult to estimate the amount of work which should be performed in a given time.

It is difficult in the time system to compare workers of different efficiency and to discriminate between superior and inferior labour. Hence, where time rates are paid, the quick and accurate worker cannot hope to benefit from his greater efficiency as compared with a worker of lower standard unless all the workmen are carefully supervised and checked. In many occupations, such as farming and building, an adequate system of supervision is almost impossible ; consequently, the employer cannot ensure a reasonable service for the reward he gives. Further, the worker has no security either that the results of his labour will come up to the employer's expectation or that he will be adequately remunerated for extra exertion.

Piece Rates.

Under the system of pure piece rates the worker is paid at an agreed rate per unit of his product. This system affords an incentive to effort and stimulates increased output. The prospect of a larger remuneration induces the quick worker to do his utmost—a factor of great importance where the quantity of the work is the primary consideration, as in the case of certain ready-made articles. Consequently, there is a fair degree of discrimination between the various classes of workers, and extra effort and greater efficiency are rewarded proportionately.

So far as the employer is concerned, he obtains a greater output per employee, and his capital assets, such as machinery and buildings, are used more productively. An important point is that the system permits of a definite calculation of the cost of labour per unit of output in relation to the total expenses of production, and enables the employer to arrange his staff so as to develop his organisation on the most productive and remunerative lines.

The most obvious defect of piece rates is the encouragement of "scamped" work. The employee aims at increasing his output so as to earn as high a wage as possible, but this may frequently be obtained at the expense of good workmanship. Consequently the piece-work system is unsatisfactory where the *quality* (and not the quantity) of the product is the foremost consideration, unless a careful inspection of the product is arranged and maintained; if this is done, piece-work may prove a highly satisfactory system to both employer and workman. Continuous work at high pressure may, however, prove detrimental to the worker's general health and may shorten the duration of his working life. This aspect is the main basis of the opposition of trade unions to piece rates, although in most applications of the system modifications have been introduced to obviate these disadvantages (see next page).

A strong objection to piece rates—especially on the part of trade unionists—is that they tend to foster jealousy and competitive rivalry among the workers, as each labourer en-

deavours to obtain in wages at least as much as his neighbour; but this tendency may be turned to advantage if the employees can be taught to work in a spirit of friendly rivalry. Another defect is that the worker's earnings are less regular than if time-rates are paid, and, during periods of partial or complete incapacity and unavoidable stoppages of work, he suffers considerable loss. Then, again, piece-wages are not easily applicable in occupations where the size or amount of the product is difficult to measure. Further, it is often difficult to determine a suitable basis for the piece-work rate, and in this connection many abuses have arisen. Friction between employers and workmen has been attributed to the attempt on the part of the former to reduce the original piece rates when the earnings of the workers on the piece basis have become greater than their earnings under the previous system of time earnings. Employers, on the other hand, have excused themselves by claiming that the great increase in weekly earnings is due either to the fact that the piece rate has been fixed on an inaccurate basis or that the workers were not doing their best when they were working under the time system. There is much to be said for this view, but at the same time the workers have frequently been justified in complaining of adjustments in the piece rates, which sometimes deprived them of any reward for increased effort and yet compelled them to maintain a high standard of output without any corresponding advantage in the way of increased earnings. They point out also that adjustments of piece rates are frequently downwards but seldom upwards.

In practice, piece rates have usually been successful, particularly in such trades as engineering and textiles, where a *standardised product* and *standardised methods* make a fair basis of payment easily determinable. In the textile industries especially, lists of standard piece rates are agreed upon between representatives of employees and employers.

Group Piece Rates.

Where individual output cannot easily be ascertained, or the work cannot be standardised, or old and new machines are running side by side, a lump sum is paid to a group of workers for a particular task, and is shared out among the workmen on principles which they themselves determine. The adoption of such rates results in the less efficient workers benefiting by the greater energy and ability of their more efficient fellows; but it obviates the penalisation of individual workers who are bound to use inferior raw material and old types of machinery, and it encourages co-operative effort on the part of the workers.

Premium Systems and Bonus Systems.

These systems attempt to combine the advantages of time rates and piece rates while avoiding their disadvantages. An

agreed standard output is fixed for each class of work, and a bonus, calculated in various ways but generally on a piece work basis, is paid for any additional output. To prevent scamping or overstrain, the additional payment may be on a diminishing scale, so that the incentive to increase output is gradually reduced.

Two of the chief bonus systems are the "Halsey" or "Time Shared" system, and the "Rowan" system of Premium Payments.

THE "HALSEY" OR "TIME SHARED" SYSTEM, originated in America, provides that the worker shall be given a certain rate of payment per hour, and it is estimated that the work which he is given should be completed in a given number of hours. If the worker completes the job in *less* time than the estimated time, some percentage of the saving, say 30 per cent., is added to the time wages earned by the man. Whether the worker completes the job in the estimated time or not, he is paid not less than his time rate of wages, and, when he reduces the time taken on the work, he not only increases his own wages, but also effects a saving to the employer in wages cost and oncost per unit of production.

THE "ROWAN" SYSTEM OF PREMIUM PAYMENTS is a British modification of the Halsey system, and aims at correcting the latter in so far as it makes possible extravagant rates of pay. In the Rowan system a time for each job is fixed, as in the Halsey system, but any time saved by the worker is taken as a percentage of the time allowed and the worker's time rate is increased by such percentage. This may be illustrated as follows :—

Time rate, 2*s*. per hour. Estimated time for job, 100 hours.
Work is performed in 10 hours, so that time saved is 90 per cent. of time allowed.
Actual rate will be 2*s*. per hour plus 90 per cent. = 3*s*. 9½*d*. per hour.
Under the Halsey scheme, the worker would receive :—

2*s*. × 10 = 20*s*.
Plus 30 per cent. of 2*s*. × 90 = 54*s*.

74*s*. for 10 hours,

giving a time rate of approx. 7*s*. 5*d*. per hour.

The advantages of the Rowan system are that no extravagant earnings are possible, and that the necessity for cutting the basic rate does not arise. The scheme also makes it impossible for any workman to double his time rate, as, in order to do this, the time saved would have to be equal to 100 per cent. of the time allowed, *i.e.*, the work would have to be done in no time.

Sliding Scales.

Sliding scales may be calculated on one of the two following bases :—

The Selling Price of the Product.—This system requires a standard unit of output as a basis. The main disadvantage is that the worker has no incentive to keep down costs ; indeed, where the demand for the product is not very elastic, it may be to his interests to keep costs high.

The evil effects of this system may be seen in the coal industry, where the policy of output restriction with a view to maintaining prices was due to the miners' fear of over-production. The minimum disadvantages, however, are probably to be found in the iron and steel industries, where supervision to prevent " ca' canny " is easier than in the case of coal ; the question of waste is largely beyond the province of the labourer.

In the mining industry the selling price basis was abandoned in 1921, and the criterion of " net proceeds " (profits, in effect) was substituted. This change gave the worker an interest in the cost, although he was still interested in high prices also.

The Cost of Living.—The fixing of wages on a sliding scale varying with the cost of living as determined by the Ministry of Labour's Index of Retail Prices was, in the first place, a war-time measure intended to ensure that the hired worker did not suffer unduly from the general rise in prices. To-day, it is used to determine rates of pay in the Civil Service, the woollen industry and transport.

The principal drawbacks in this case arise from the fact that, although in any industry wages must eventually depend upon the state of trade and the value of the product, yet neither of these varies with the cost of living index number. A frequently heard criticism of the system is that the official cost of living figure applies properly only to one grade of labour, since different standards of living are differently affected by a given change in the general price level.

Profit-Sharing.

To encourage the unity of capital and labour in production in many undertakings, profit-sharing schemes have been introduced whereby it is provided that the workers, subject to certain conditions, shall participate to a limited extent in the profits of the concern.

The principal advantages of such a scheme are as follows :—

(1) Friction between labour and capital is reduced and the chances of strikes and lock-outs are minimised.
(2) Greater care is exercised in the use of tools and machinery.

(3) Waste of materials, light, fuel, etc., is largely obviated.
(4) There is less need for the supervision of workers or the inspection of work.
(5) The individual efficiency of the worker is increased as a result of the greater incentive to effort.
(6) A certain *esprit de corps* which reacts to the general good is fostered.

There are certain disadvantages attaching to any such scheme, the chief being :—

(1) It tends to break up the solidarity of the trade unions. Workers in receipt of a share in profits come to regard their own concern as the unit, and to disregard the interests of persons outside it. Thus the attitude of organised labour to profit-sharing is hostile.
(2) The product of increased efficiency on the part of the workers may be lost by inferior management. Hence there arises a demand by the workers for a share in control as well as in profits.
(3) The reward for increased effort is sometimes too long deferred, or is too small to provide an adequate incentive.
(4) Many workers desire a steady return so that their household budgets may be uniform from week to week. They do not wish to share in the risks of production.

Co-partnership.

Co-partnership, which has much in common with profit-sharing, may be regarded as the answer to the demands of profit-sharing employees for a voice in the management. In schemes of this nature, workers entitled to a share of the profits invest their share either wholly or in part in the business and thus become shareholders. Alternatively, shares are issued to them in lieu of profits, while in some cases they are paid part of their profits in cash.

It is claimed that such schemes definitely raise the status of the worker since he becomes a part owner of the business, and that they give him a real interest in the success of the firm. Actually, however, many of the above-mentioned disadvantages of profit-sharing apply also to co-partnership. In addition, there is the argument that the average worker saves so little that he rarely secures any effective voice in the control of the firm, and that what little he does save he should put aside in the safest possible form of investment or repository. In other words, the criticism is that it is inadvisable for workers to be dependent upon a single business for the safety of their savings as well as for

their wages; to have, in short, "all their eggs in one basket." While this is undoubtedly true, it is offset by the fact that the savings in question are (or should be) in excess of what the normal savings of the worker would be in the absence of the scheme.

Existing schemes of co-partnership vary considerably as to detail, but the main features are similar. Usually a bonus is paid at specified periods, either as a cash distribution or in the form of shares. Sometimes the employees are given actual shares or profit-sharing certificates in the company. Where shares are given, they are usually of a special class, and are entitled to an agreed percentage of the surplus profits after payment of a fixed dividend on the other capital. Sometimes, instead of the shares being given *to the employees*, they are vested in a co-partnership trustee until the retirement of the employee, when they are returned to the company. Alternatively, co-partnership certificates may be issued. As a general rule, the scrip or shares are not transferable, and where actual shares are issued, a limit is placed on individual holdings.

The distribution of the shares (or of cash) amongst the employees must, of course, be on an equitable basis; otherwise there is likely to be dissatisfaction. The share of each employee may be based on his salary, or on a combination of salary and length of service. Alternatively, the shares may be based on the position held, *e.g.*, managers, 10 units; foremen, 5 units; men, 3 units; women, 2; boys, 1.

If it is desired to make the scheme a true co-partnership by giving the men a share in the management, this may be arranged by allowing the shares to carry votes, just like ordinary shares. A more usual method is to allow the men at a co-partnership meeting to elect representative(s) who may be given a seat on the Board, or may be allowed to join in a management committee.

It is usually found that little success attends any scheme which does not provide the men with some voice in the management. Other common failings in schemes of this nature are: (1) their failure to *fix* the proportion of profits to be allocated to the co-partners; (2) there is usually too long a delay in distributing the shares; (3) the distribution is usually inadequate. However well-designed any such scheme may be, there is always a possibility of breakdown, and for this reason it is usual for the management to reserve the right to cancel the scheme at any time.

The Minimum Wage.

In order to maintain a reasonable standard of living, a minimum wage based on a standard output has been fixed by agreement in certain industries. Such rates are usually found

in industries where trade unionism is strong, *e.g.*, the cotton trade. On the other hand, "sweated" trades, like chain-making, tailoring, cardboard box-making and lace-making, were provided with *compulsory* minimum rates by the *Trade Boards Act*, 1909, and, by the *Trade Boards Act*, 1918, the application of this compulsory minimum was greatly extended. Miners are protected by the *Coal Mines (Minimum Wage) Act*, 1912, while wages boards with power to fix minimum wages were introduced in agriculture under the *Agricultural Wages (Regulation) Act*, 1924.

Minimum wages possess many advantages, the chief of which is the abolition of sweating, but there are certain drawbacks. The minimum wage tends to become the maximum, and, as conditions vary from time to time and from place to place, real wages are liable to fluctuate, and the fixation of a fair wage is a matter of real difficulty. This can be overcome to some extent by the establishment of district, as opposed to national, minima.

Suggestions have come from many quarters for a *national* minimum wage, *i.e.*, a legally enforceable minimum wage covering not merely specific trades, as under the Trade Boards system, but the whole field of industry. So far, however, the Government has preferred to leave wage-fixing to collective bargaining between employers and employed, except in the case of the "sweated" trades enumerated above.

Social Welfare.

The modern employer realises that it pays him to take upon himself some care for the personal well-being of his employees, and to admit them to his confidence and at least to some share in controlling the conditions under which they work. On their side, the employees are gradually becoming convinced that their interests are bound up in the prosperity of their trade in general and of their employers in particular. Thus a start has been made in the realisation of the ideal of community of interest and of fair and peaceful team-work which should do much to foster happier and better industrial conditions as the years go by.

Where the welfare activities of a business concern are at all extensive it becomes impossible for the Staff Manager to give adequate attention to them, so a Welfare Supervisor is usually appointed to give full attention to this matter. Sometimes the welfare activities are so extensive as to demand the setting-up of a special Welfare Department in charge of a Supervisor who should be appointed with the approval of a Welfare Committee elected by the employees. Such a department has control of welfare both inside and outside the factory or office.

Internal Activities of a Welfare Supervisor or Department may include :—

1. Supervision of Working Conditions.

2. Provision of First-Aid Treatment.—The facilities range from suitably placed first-aid boxes to the provision of a well-equipped ambulance room, with nurse in attendance. Large concerns usually provide Rest Rooms, at least for the female staff.

3. Canteens, Dining-Rooms, etc.—It is well known that ill-health is often due to underfeeding or bad feeding. Where there are inadequate facilities for the staff to obtain midday meals, it usually pays to provide these inside at a reasonable figure.

4. Education and Training.—By arranging classes, lectures, or otherwise encouraging the members of the staff to improve themselves, it is possible to increase their efficiency as well as to foster friendly feelings towards the employers.

5. Sports and Entertainments.—Sports and social clubs, concerts, etc., all lead to a more contented and healthy staff. Usually the clubs are independent of the supervision of the Welfare Committee, though sometimes they receive financial grants.

External activities require very delicate handling, for any attempt to interfere with the employee or his domestic affairs is resented as prying. The worker can be assisted by providing him with medical aid, though the working of the National Health Insurance Scheme has made this of less importance ; of more use is the arrangement of hospital accommodation for himself and his family. Another important aspect of welfare work is the provision of housing where existing accommodation is inadequate. The housing arrangements at Bourneville (Cadbury Ltd.) and Port Sunlight (Unilever Ltd.) are outstanding examples of this work. Yet another form of assistance for the worker is the provision of transport facilities to and from the works.

In all its activities the Welfare Department should aim at producing healthy, contented, and loyal employees. Far-sighted employers now realise that money spent on such schemes is not a form of charity : it is a profit-earning expenditure. Moreover, if they want the best results from their welfare work, they take care not to give the impression of charity, for nothing is more calculated to arouse antagonism among the workers.

QUESTIONS BEARING ON CHAPTER 15

1. How are sliding scales calculated? Discuss the effects of this method of paying wages.

2. Discuss the advantages and disadvantages of "time" and "piece" rates as methods of wage payment. (*A.I.C.A., Final.*)

3. "The prices to be paid for piecework shall be fixed by mutual agree ment." What methods have been used to give effect to this principle? (*R.S.A., Stage III.*)

4. What, from the employer's point of view, are the merits of a bonus system of wage payment? What are the objections to it from the workman's point of view? And finally, give your opinion as to the public interest. (*R.S.A., Stage III.*)

5. Do you consider labour co-partnership to be an important extension of the principle of profit-sharing? (*R.S.A., Stage III.*)

6. Mention four different methods of remunerating workpeople, and state their respective advantages. (*R.S.A., Stage III.*)

7. Distinguish between profit sharing and labour co-partnership What advantages in your opinion does the adoption of such schemes offer? (*R.S.A., Stage III.*)

8. Summarise the advantages and disadvantages of co-partnership, emphasising what you consider the essential principles in any such scheme to ensure success. (*S.A.A., Inter.*)

9. What advantages are claimed for bonus and premium bonus wage systems over time wages and piece-rates?

Describe some bonus or premium bonus system with which you are familiar. (*R.S.A., Stage III.*)

10. Distinguish between—

Profit-sharing,
Co-partnership,

in the relations between employer and employee. (*C.A., Inter.*)

11. What are the usual methods of remunerating workpeople? State shortly the special advantages of each such method. (*R.S.A., Stage III.*)

12. Discuss the relative advantages of time and piece wages in British industry. Which predominates in the exporting group of industries, and why? (*R.S.A., Stage III.*)

13. What do you understand by the phrase "payment by results" as applied to wages? Indicate the real basis of such payment and discuss the advantages and disadvantages of the method. (*R.S.A., Stage III.*)

14. Give your reasons for expecting or not expecting a great extension in the future of labour co-partnership. (*R.S.A., Stage III.*)

CHAPTER 16

FIGURES AND FINANCE

THE *sine qua non* of any efficient system of business financing consists of so husbanding the available resources of the concern that they are used to the fullest possible extent. The resources of a business include the *capital* owned by the concern, and any trade credit which it is able to obtain.

Capital.

The capital of a joint-stock enterprise has already been defined and explained. That of a private trader or of a partnership is represented by, and, in fact, is measured by, the excess in the value of the assets (*i.e.*, the property) of the business over its liabilities. The capital invested in a business may exist in a variety of forms :—

FIXED CAPITAL is the aggregate value of the assets of a permanent nature, such as land, buildings, machinery, goodwill, patents—where these are acquired for *use* and not for *exchange.*

FLOATING OR CIRCULATING CAPITAL is that part of the resources of the business which is employed in easily realisable property, such as stock-exchange investments, cash, goods, trade debtors, bills receivable—*i.e.*, things acquired for *exchange.*

FLOATING LIABILITIES represent the total of all debts which are of a temporary nature only, and which are shortly due for repayment. The sum includes trade creditors, bills payable, amounts owing for rent, rates and taxes, together with any temporary bank overdraft.

WORKING CAPITAL is the excess of floating assets over floating liabilities, and represents those funds which are available to finance further operations. The working capital is derived partly from the trader's own resources and partly from trade credit granted to him, and, possibly, from bank loans.

Shortage of working capital is a great handicap to any business, for it not only makes it difficult for the concern to pay cash for goods and services rendered, but also it prevents the firm from taking up new and profitable business and from taking advantage of cash discounts. If the shortage of funds is so acute as to cause delay in meeting bills, the reputation of the firm may suffer. and its suppliers will probably refuse to grant further credit.

It may be noted that the more rapid the turnover of a business the smaller may be its working capital, for the interval between production and sale is shorter, and expenditure brings a more rapid return.

Obtaining Funds.

Additional working capital may be obtained by a business concern in a variety of ways, *viz.* :—

(1) Borrowing or obtaining credits *from bankers* and *industrial finance companies.*
(2) Borrowing *from investors* (usually through a solicitor).
(3) *Obtaining trade credit, i.e.,* obtaining supplies of goods from another concern on condition that they are paid for within a specified time. Such trade credit has, of course, to be paid for in one way or another. If a concern is known to require three months' credit before it pays for its purchases, it may be charged higher prices or it may pay for the facility by the loss of a discount which would be allowed if the goods were paid for immediately. On the other hand, traders who grant trade credits decrease their available working capital and expect, therefore, to be compensated by the gain of the cash discount they would otherwise have to allow.
(4) Borrowing *from building societies* for the purpose of purchasing or building premises.
(5) Buying goods or plant *on hire-purchase.*

A joint-stock company can obtain new capital also by the *issue of further shares*, provided it has not already issued the whole of its authorised capital. This method of obtaining further capital has of late been greatly facilitated by the introduction of shares of varying types, with differing degrees of safety designed to appeal to different classes of investors. Another channel open only to companies is the *issue of debentures.* This method represents the most common form of borrowing by companies and has the advantages of security for the lenders and convenience for the company.

In addition, private traders and partnerships can obtain further capital by taking other persons into partnership.

Under-capitalisation.

The importance of gauging with reasonable accuracy the amount of capital required is of vital importance. *Under-capitalisation* will prevent the expansion of the business in the event of a brisk demand for its commodities or services ; good-will will deteriorate owing to failure to meet customers' requirements and to fulfil business obligations, while the business will

be unable to take advantage of any special opportunities, as by purchasing large stocks when prices are unusually low, which would otherwise be open to it. A company that is under-capitalised operates with inadequate working capital, *i.e.*, the business is continually short of liquid funds and is dependent on credit granted by its suppliers. Further, its own ability to grant credit, and hence to extend its sales, is restricted. Another disadvantage is that the company cannot obtain the benefits of any discounts for cash payments that are available.

Under-capitalisation is not always the result of faulty estimates of the amount of capital needed. Sometimes it arises because large dividends have been paid at a time when the cash resources were tied up in the business or because a business extends its operations without a proportionate increase in the funds at its disposal, in which case it is said to be *overtrading.*

Under-capitalisation can be remedied by obtaining more capital from the public, provided the company is fundamentally sound, but there is the danger that such additional capital may have to be obtained on terms worse than those ruling at the time the company was established. The importance of making correct estimates when the company is floated is thus clearly shown.

Over-capitalisation.

Over-capitalisation, on the other hand, will result in a large amount of capital being withheld from productive use, causing a reduction in the dividend payable on the company's shares and a consequent reduction in their market value.

It will be noted that the term " over-capitalisation " is used in this connection to describe the position where a business concern has a larger amount of capital invested in it than is needed to carry on the business and, of course, provide a safety margin to meet sudden demands.

Over-capitalisation is also said to exist when the paid-up capital of a company is no longer represented by assets of equal value. This may occur through the loss of capital by reason of trading losses ; but more commonly it is the result of " watering " capital, either through the unwise issue of bonus shares or through the acquisition of assets at inflated values. A glaring instance of the latter form of watered capital was provided by the cotton share boom after 1918 when mills were sold at ridiculous prices and shareholders in the new companies eventually found most of their capital was fictitious.

Over-capitalisation means that the paid-up capital of the company is at such a level relative to the earning capacity of the company that a normal rate of dividend on capital, appropriate to the nature of the company's business, cannot be paid. For example, the paid-up capital of a company may be £100,000, represented by assets whose annual earning capacity is £3000, which represents 3 per cent. on capital. If the nature of the

business is such that 5 per cent. is considered a normal return, then the company is over-capitalised. One way of remedying this position is to reduce the capital to £60,000, on which sum £3000 represents 5 per cent. Reduction of capital, however, is a cumbrous and unpleasant process, and, moreover, is an admission to the public that the business has not had the success anticipated. Such difficulties can be avoided by taking every care to make correct estimates at the beginning.

It is sometimes said that the trading position of a company is not affected by its inability to pay good dividends. This argument is unsound, for it is found that the activities and dividend record of a company are closely connected. If the market value of the shares falls because of low dividends, the reputation and credit of the company are bound to suffer. The shareholders clamour for dividends and the directors, in an effort to satisfy them, may neglect the best interests of the company in trying to obtain a distributable profit without making adequate provision for depreciation. The payment of dividends in such circumstances may seriously impair the cash position of the company. The directors may also embark on grandiose schemes, in order to make a profit, and find that the resources of the company are inadequate for their purposes.

Shares or Debentures.

An important point for consideration when a company needs more capital is the question as to the manner in which the capital shall be raised, as, for example, by an issue of shares or of debentures.

The issue of debentures, it must be remembered, puts an actual burden on the company's revenue, since interest has to be paid regularly if the company is to continue trading. Furthermore, when debentures are issued, the company's borrowing powers are to that extent reduced, in practice if not in law, so that difficulty is likely to be experienced in raising further funds if they should be required.

Against these disadvantages there has to be set the great advantage that debentures can be made redeemable; consequently, if funds are required for a definite period, debentures can be issued for just that period. On the other hand, it is now possible to issue redeemable preference shares, though it would seem that the public has not taken to these. The issue of non-redeemable shares for other than a permanent expansion of business is obviously unwise, as it almost inevitably leads to over-capitalisation.

In practice, regard must also be paid to the current state of the capital market. Conditions may be such that an issue of shares is unlikely to meet with success. In that case, a company which is in urgent need of additional capital may find it possible to obtain it only by an issue of debentures. If the

additional capital were needed permanently in the business, and it was preferred to raise it by an issue of shares, the debentures could be made redeemable and, when conditions had improved, they could be redeemed out of the proceeds of an issue of shares. Alternatively, it might be possible to obtain the funds temporarily by way of loan from the company's bankers.

ACCOUNTING RECORDS

Clearly, no business concern can determine the existing state of its financial affairs at any time unless it keeps an accurate and up-to-date record of the whole of its financial transactions. So much importance is attached to this that it is now compulsory for every company registered under the Companies Act to keep books of account and to render to its shareholders periodical statements of its financial position, duly reported upon by its auditor or auditors.

Whilst it may be within the province of the staff of the ordinary business house to " keep " the books, *i.e.*, to maintain a continuous record of transactions, it may not be within their capacity to prepare statements of results over a period. In large firms, of course, this also will be done inside, but smaller concerns will employ a professional accountant to perform the task.

The first step is to prepare a "*Trial Balance,*" which, as its name implies, is merely a process of proving the mathematical accuracy of the books. It demands a steadfast adherence to the principle of double entry, for the " trial " is made by extracting a list of the debit balances in the books and another list of the credit balances; if the books have been accurately kept the totals of the two lists should agree. If they do not agree, then a search must be instituted and the error or errors rectified.

Once the trial balance has been correctly completed, the accountant may proceed to " close " the books and to arrive at a correct estimate of the results of the period under review—usually one year. A "*Profit and Loss Account*" is drawn up, showing on the debit side a list of totals of the expenses incurred and on the credit side the totals of each source of income from operations during the period. As a general rule, this account is split into two parts, the first being known as the "*Trading Account*" or "*Manufacturing Account,*" and the second as the "*Profit and Loss Account.*" The following examples illustrate the general form of these accounts :—

MODEL TRADING ACCOUNT

for the year ended 31st December 19....

DR.			CR.		
19 .		£	19 .		£
Jan. 1	To Stock of Raw Materi l . .	10,000	Dec. 31	By Sales . 28,000 *Less* Returns 100	27,900
Dec. 31	„ Purchases £19,200 *Less* Returns 200	19,000		„ Stock on hand .	13,000
	„ Wages . .	3,000			
	„ Factory Rent and Ra es . .	1,000			
	„ Factory Heating and Lighting .	500			
	„ Inward Carriage	500			
	„ Gross Profit c/d. .	6,900			
		£40,900			£40,900

MODEL PROFIT AND LOSS ACCOUNT

for the year ended 31st December 19....

DR.			CR.		
19 .		£	19 .		£
Dec. 31	To Salaries . .	1,300	Dec. 31	By Gross Profit b/d. .	6,900
	„ Commissions .	500		„ Discounts received	200
	„ Debenture Interest	200			
	„ Advertising . .	200			
	„ Lighting and Heating . . .	150			
	„ Carriage Outwards	450			
	„ Rent, Rates and Taxes . .	300			
	„ Insurance . .	100			
	„ Depreciation .	250			
	„ Sundry Trade Expenses . .	500			
	„ Reserve for Bad Debts . .	200			
	„ Directors' Fees .	400			
	„ Discounts allowed	550			
	„ Net Profit . .	2,000			
		£7,100			£7,100

COMPARATIVE TRADING AND PROFIT AND LOSS ACCOUNT.

Year ended 31st December.	This year (19).		Last year (19).	
	£	Per cent. on Sales.	£	Per cent. on Sales.
Opening Stock				
Purchases : *Less* Closing Stock . .				
Net Materials consumed . .				
Manufacturing Wages . .				
Cost of Goods sold . .				
Add Gross Profit on Goods sold				
Sales for the year . . .				
		100·0		100·0
Salaries				
Rent, Rates and Insurance. .				
Advertising				
Stationery				
Carriage Outwards, etc. . .				
Less Discounts received . .				
Add Net Profit for the year .				
Gross Profit as shown above .				

It will be observed from the above Trading Account that the *Gross Profit* is the excess of the amount realised by the sale of goods over the cost of manufacturing or purchasing them. Where the total cost of manufacture or purchase exceeds the amount realised on sales, a *Gross Loss* is incurred, and this will be shown on the credit side of the account and transferred to the *debit* side of the Profit and Loss Account. A *Gross Profit* is transferred to the credit side of the Profit and Loss Account, where, after deduction of certain trade expenses and the addition of sundry revenue items (if any), a *Net Profit* for the year is arrived at. It is, of course, possible for the total of the trade expenses to exceed the gross profit, or a gross loss may be increased by the addition of these expenses. In such cases a *Net Loss* is incurred, and is entered on the credit side of the Profit and Loss Account.

In order to show how the disposable profit is allocated, or appropriated, that profit is transferred to a third account,

called an *Appropriation Account* which in form appears as follows:—

APPROPRIATION ACCOUNT.

	£		£
To Preference Dividend paid .	70	By Balance brought forward from previous year . .	1,500
„ Final Dividend of 15 per cent. for the previous year paid on Ordinary Shares .	1,050	„ Net Profit for year ended 31st December 19 . .	1,000
„ Interim Dividend of 5 per cent. for the year paid on Ordinary Shares . .	350		
„ Balance carried forward .	1,030		
	£2,500		£2,500

The Appropriation Account is opened with the balance brought forward from the previous year, and is credited with the net profit for the current year, in the example here given, £1000. That account is then debited with the various appropriations of profits which have been made during the current year. It will be observed that the Final Dividend on the Ordinary Shares is on account of the *previous* year, while the Interim Dividend is on account of the current year. This arises from the fact that, while the majority of companies give power in their Articles of Association to the directors to pay Interim Dividends, the payment of a Final Dividend is usually required to be authorised by the members in General Meeting. At this meeting a Directors' Report is laid before the members, showing how it is proposed to deal with the available balance. For instance, in the above case, a Final Dividend of 10 per cent. might be recommended, which would absorb £700, leaving £330 to be carried forward.

Alternatively, the accounts may be set out in statement form as shown in the example given on page 211. This form has distinct advantages where it is desired to compare the results of the current year with those of the preceding year, and the use of percentages in each case enables a rapid and accurate judgment to be formed of the progress of the concern.

The last stage in the preparation of final accounts is the drawing up of a Balance Sheet, showing the financial position of the firm at the close of the period under review. Items of debt such as capital, debentures, amounts owing to creditors, and on bills payable, loans, revenues and the balance on Profit and Loss Account (if favourable) are grouped on the left-hand side of the Balance Sheet under some heading as "Capital and Liabilities." On the right-hand side the "Assets" are detailed, and these include all the possessions of the concern and all debts owing to the business, together with the debit balance on Profit and Loss Account (if any).

The following is a Balance Sheet relating to a joint-stock company:—

MODEL BALANCE SHEET

as at 31st December 19

CAPITAL AND LIABILITIES.	£	ASSETS.	£
Share Capital:		Fixed Assets—	
Authorised—		Goodwill, at cost . . .	1,000
1000 7 per cent. Preference Shares of £1 each . .	1,000	Patents, at cost, less amounts written off . . .	500
9000 Ordinary Shares of £1 each	9,000	Trade-marks, at cost . .	200
		Freehold Properties, at cost .	1,000
Issued—		Plant and Machinery, as valued by Messrs. Smart & Co., at . . .	1,500
1000 7 per cent. Preference Shares of £1 each, fully paid	1,000	Furniture and Fittings, at cost, *less* depreciation .	500
7000 Ordinary Shares of £1 each, fully paid . .	7,000	Investments in Shares of Subsidiary Companies, at cost	1,000
5 per cent. Mortgage Debenture Stock	4,000	Floating Assets—	
General Reserve Fund . .	2,500	Stock-in-Trade, as valued by Managing Director . .	13,000
Sundry Creditors . . .	2,500	Sundry Debtors, *less* reserve for bad and doubtful debts	1,330
Bills Payable . . .	500		
Secured Loans . . .	1,500		
Debts due to Subsidiary Companies	500	Debts due from Subsidiary Companies on Trade Accounts . . .	300
Profit and Loss Account—Balance available . .	1,030	Cash at Bank and in hand .	200
	£20,530		£20,530

The Auditors' Functions.

It has already been mentioned (in Chapter 9) that the accounts of joint-stock companies must by law be "audited" each year. This means that certain persons, usually professional accountants, must be elected by the shareholders each year as auditors of the company. The auditors are agents of the shareholders, and it is their duty to check the accuracy of the books of the company and to report thereon *to the shareholders*. The main objects of an audit are the detection and prevention of errors and fraud.

In the case of a limited company, the auditors' report must be attached to the balance sheet, and as its form is practically prescribed by law (Companies Act, 1929), it almost always appears as follows :—

> "*We have audited the above Balance Sheet of the..........Limited, dated the........day of.........., and have obtained all the information and explanations we have required. In our opinion, such balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of our information and the explanations given to us and as shown by the books of the Company.*"

Should the auditors discover any irregularity, which the

directors will not, or cannot, remedy, it is their duty to refer to it in their report.

Private businesses are not compelled to have their books audited, but in practice it is usual for all such businesses, particularly those under good management, to place their books in the hands of a professional accountant, who verifies their accuracy by means of an audit.

Internal Check.

In addition to the periodical audit described above, many businesses institute a system of "internal check." This is a system whereby the work of each individual member of the staff is constantly checked by other members. A system of this nature acts as a powerful deterrent against fraud, since it makes fraud very difficult to commit without collusion between members of the staff. At the same time, the system reveals mistakes promptly and enables them to be rectified before much harm can be done. The system of internal check adopted will naturally depend on the particular business. Any efficient system, however, should be based on the following considerations:—

(*a*) The cash department and the general bookkeeping department should be separated from one another, and in no case should the same person be allowed to make entries in both the cash book and the ledger. In order to prevent collusion between the two sections of the staff, any queries arising between them should be settled by reference to a special query clerk.

(*b*) Ledger clerks should not be allowed to come into close contact with either the creditors or the debtors of the business, neither should they be permitted to carry on any business correspondence, unless close supervision is maintained.

(*c*) No clerk should be allowed to be in full charge of any particular section of the accounts for a long period.

(*d*) Every employee should be compelled to take an annual holiday, during which his work should be examined.

(*e*) In a concern of any great size suitable forms of statistics should be prepared periodically by persons not engaged in the actual bookkeeping.

(*f*) Debtors and creditors should be circularised at irregular intervals in order to get their accounts confirmed.

(*g*) All cash received should be evidenced by the official receipt of the concern, and no cash should be paid out unless a receipt is received for it. The petty cash should be kept on the "Imprest" system, and cash should be paid out only against a regular voucher.

(*h*) All cash received should be banked intact the same day, and all payments (other than petty cash) should be made by cheque. This, of course, cannot be applied to a retail concern, where cash registers should be used.

(*i*) If possible, self-balancing ledgers should be maintained, and these should be balanced periodically by someone other than the actual ledger-keepers.

(*j*) Stores should be issued only against duly authorised requisitions.

In some businesses, in addition to the maintenance of a system of internal check on the above lines, a special section of the Accounts Department is given the duty of maintaining a continuous process of inspection of the books. Such a section is known as the *Internal Audit* Department, and it functions usually by making unexpected checks of the books of the various sections. It has no connection with the external audit to which a company is bound to submit its books, though the latter is also carried on continuously in some cases, when the process is known as a *continuous audit.*

The Objects and Advantages of Costing.

Cost accounts may be described as a systematic record of the detailed transactions and operations of manufacturing, contracting, etc., maintained with the object of ascertaining the actual cost of the total output, and of each individual piece of work or separate process comprised in the output of a factory, workshop or other concern.

In every business house of any magnitude full efficiency is impossible without some system of costing. In some businesses the operations are so simple that the costing system is simplicity itself, and those who work the system probably do not look upon it as costing at all. Thus, a firm of wholesale dealers can estimate costs merely by ascertaining the actual price paid for a batch of goods and adding a sum to cover transport costs, warehouse wages and other relatively small expenses. The records required to obtain this information are provided by the existing financial books, and no elaborate system is required. In manufacturing and many other types of business, however, a complicated set of records must be kept in order to arrive at the actual cost figure.

The chief objects and advantages of a costing system are :—

(1) It shows the full cost of producing a given unit, whether it be of goods or of services.

(2) It provides accurate records of results, *i.e.*, whether any specific work, article, or process realises a profit or a loss, and whether estimates are being exceeded, or otherwise, during the course of manufacture.

(3) It acts as a guide in making future estimates and in quoting prices.

(4) It facilitates detailed control of expenses and the preparation of prompt returns of costs and profits and of interim accounts.

(5) It assists in discovering sources of waste and of losses from any cause, *e.g.*, it reveals weak spots in organisation and leads to the detection of bad workmanship and management.
(6) It stimulates efficient production.
(7) It prevents the uneconomic locking-up of capital in obsolete or slow-moving stocks, by disclosing to the executive the maximum and minimum quantities of each class of stock which should be carried to meet normal requirements.

These objects are attained by keeping strictly accurate records of all costs incurred, including the costs of raw materials, wages, salaries, heat, light and power, rents and rates, depreciation of machinery, repairs and numerous other items.

There are several distinct systems of costing, each of which is suitable to a particular type of enterprise. The generally accepted grouping of cost accounts is as follows :—

SINGLE (OR OUTPUT) COSTING, suitable for businesses supplying a product of uniform type, whereby the cost per "natural" unit of output is ascertained, *e.g.*, per ton of coal raised in a colliery.

PROCESS COSTING, adapted specially to such businesses as refineries and chemical manufacturers, where the product passes through a number of distinct processes or stages. The unit adopted is a standard unit for each process or stage of manufacture.

OPERATING (OR WORKING) COSTING, a system confined almost exclusively to concerns which produce and sell *services*, *e.g.*, railways and tramways. The costing unit is the standard unit of service performed, *e.g.*, the passenger mile or the car mile.

TERMINAL (OR JOB) COSTING, specially adapted for industries producing one definite article or undertaking work of a constructional nature, such as builders and contractors. By this system it is possible to discover the cost of, and profit on, each individual contract or batch of articles.

DEPARTMENTAL COSTING, suitable for concerns manufacturing a product which has to go through several stages of manufacture, *e.g.*, textile goods, where each stage constitutes a separate department and the departments are almost small factories in themselves. The object is to ascertain the costs and profits of each department.

MULTIPLE COSTING, the most complicated of all costing methods, for it frequently represents a combination of all the foregoing systems. It is used by concerns producing articles which differ considerably in type, size and value, such as a miscellaneous collection of toys or engineering products (tools), cycles and motor-cars. The standard unit varies, sometimes being a job or a batch, sometimes a part or an operation, and so on.

The Composition of Ascertained Costs.

The " cost " which is ultimately ascertained by every method of costing is made up of several elements, embracing labour costs, the cost of materials and establishment expenses. The various elements are shown in the following chart :—

TOTAL OR ASCERTAINED COST.

FACTORY OR WORKS COST. | OFFICE ONCOST.

PRIME COST, *i.e.*,	FACTORY OR WORKS ONCOST, *i.e.*,	
Direct Labour, Direct Materials, Direct Expenses.	Indirect Labour, Indirect Materials, Other Factory Expenses.	Selling and Administrative Expenses.

Selling Price = Total (or Ascertained Cost) + Profit.

PRIME COST embraces the total cost of direct labour, direct materials and direct expenses incurred on any particular job, process or article.

ONCOST is a collective term applied to include all items, other than those embraced in the term " prime cost," which cannot conveniently be charged to a specific job, process or article, such as works' light and power. The factory or works expense is frequently referred to as "Factory Oncost," whilst selling and administrative expenses are known as " Office Oncost."

FACTORY or WORKS COST includes prime cost *plus* (1) indirect expenses of labour and materials, and (2) overhead expenses of the factory or workshop such as rent, rates and lighting.

TOTAL COST includes factory cost plus selling and administrative expenses.

BUSINESS RESULTS

Profits in Relation to Turnover and Costs.

The ratio which profits bear to the value of business done is usually expressed as a percentage of gross profits to " turnover," turnover being the total value of the sales for the period under review. Thus, taking the gross profit and sales shown in the Trading Account on p. 210, the percentage of profits on turnover is $\frac{6900 \times 100}{27,900} = 24{\cdot}73$ per cent. (approx.). (The percentage of *net* profits to turnover is $\frac{2000 \times 100}{27,900} = 7{\cdot}17$ per cent.) This method of expressing profits as a percentage enables a ready

comparison to be made between successive years. Thus, if in the following year the figures for turnover were £32,900, for gross profit £8100 and for net profit £2300, the rate of profit would appear at first sight to be in excess of that of the preceding year. Actually the percentage of gross profit to turnover would be 24·62 per cent., and of net profit 6·99 per cent., as compared with a gross profit of 24·73 per cent. and a net profit of 7·17 per cent. in the previous year.

Profits may also be expressed as a percentage of the costs incurred in making them, but this is not so satisfactory, because certain elements of those costs are fixed, *i.e.*, they do not vary with increases or decreases in the volume of sales.

Using the figures in the accounts on p. 210, the percentage of gross profit to total cost is $\frac{6900 \times 100}{25,900} = 26 \cdot 64$ per cent. (approx.), and the percentage of net profit to total cost is $\frac{2000 \times 100}{25,900} = 7 \cdot 72$ per cent. (approx.). The total cost (£25,900) is calculated by adding all the expenses shown on the debit side of the accounts less any income received (£38,900) and deducting the stock on hand (£13,000). The prime cost of making the goods is calculated as follows :—

Stock at beginning of period . . .	£10,000
Plus Expenses shown in Trading Account	24,000
	£34,000
Less Stock at end of period . . .	13,000
	£21,000

The percentage of gross profit to prime cost is therefore $\frac{6900 \times 100}{21,000} = 32 \cdot 86$ per cent. (approx.).

It will be seen that the percentage of profits on costs is higher than the percentage on turnover, and this sometimes gives rise to false ideas as to the rate of profit earned. The point can be seen more clearly from a simple example. Suppose a trader buys a thousand articles at £1 each and, wishing to sell them at a profit of 50 per cent., fixes the selling price at 30s. each. At this price he realises £1500, making a profit of 50 per cent. *on cost price*, but this is equal to only $\frac{500}{1500} \times 100 = 33\frac{1}{3}$ per cent. on sales. Many traders, particularly small retailers, fix their selling price merely by adding a certain percentage to the cost price. There is no objection to either system, provided that what is done is clearly understood.

Operating Ratio.

Another useful percentage used in the calculation of profits is known as the "Operating Ratio." This method expresses the ratio borne by expenses to receipts, and may be calculated either as a direct ratio, *i.e.*, by dividing expenses by receipts, or as a percentage, *i.e.*, by multiplying this ratio by 100. A periodical calculation of the operating ratio enables a trader to follow variations in the efficiency of his concern to a certain extent, but it has one defect—it loses sight of the important fact that in order to increase sales it is necessary sometimes to cut prices or, possibly, to increase expenses, as by advertising. Thus, a policy of "large sales and quick returns" or "small profits, quick returns" will show a narrowing up of the "operating ratio," so that it approaches unity, but the increased volume of sales may result ultimately in a much larger profit. The following table shows the operating ratio of a concern for four years:—

	Cost of Sales.	Sales.	Profit.	Operating Ratio.
1st Year .	£10,000	£11,000	£1000	·91
2nd ,, .	£20,000	£21,500	£1500	·93
3rd ,, .	£40,000	£42,000	£2000	·95
4th ,, .	£60,000	£62,500	£2500	·96

These figures represent a rapid increase in turnover and an annual increase in profits of £500. The operating ratio is steadily drawing closer to unity, but provided the rise in expenses can be traced definitely to some unavoidable factor, such as advertising expenses, this should give no cause for alarm.

In certain circumstances it is advisable to continue business on a "no-profit" basis for a period rather than to suspend operations altogether. During a period of business depression, for example, it may be impossible to sell goods at a profit, but it may be more profitable to sell at cost price rather than close down temporarily in order to cover those "overhead" costs, such as rent, rates, taxes and the salaries of the higher officials, which must be met even if operations are suspended.

The existence of these fixed overhead charges must be borne carefully in mind when comparing the percentages of *net* profit between one period and another. The percentage of *gross* profit should be approximately the same for different periods, despite fluctuations in turnover, but, as many of the overhead charges in the Profit and Loss Account remain the same, the result is that the percentage of the *net* profit to turnover shows distinct variations.

Profit and Capital Calculations.

When the net profits in respect of any one period are compared with the profits for preceding periods, it is important to take into account the varying amounts of capital employed in the business, for when more capital is introduced increased profits should be the logical result. The difficulty which arises in making these comparisons is to decide *how much* capital is actually employed. A rough and ready basis is yielded by calculating the excess in the value of assets over liabilities at the beginning of the period under review, and treating that as the capital. The method, however, frequently makes no allowance for credit facilities received and granted. For example, if the concern applies for and is granted a heavy bank loan, this is equivalent to an *addition* to its working capital and should result in a corresponding rise in profits earned. The same applies to an expansion of the trade credit facilities enjoyed by the concern. On the other hand, an extension of credit facilities to certain customers represents a drain on the working capital, and will ordinarily result in reduced profits.

When a figure for capital has been decided upon, the calculation is quite simple. Thus, in a concern making £3,200 net profit on a capital of £40,000, the net profit expressed as a percentage of capital employed is $\frac{3200 \times 100}{40,000} = 8$ per cent.

Rapidity of Turnover.

The term "rapidity of turnover" means the number of times, or the speed at which, stock is disposed of within a certain period. This can be determined by dividing the average cost price of the stock held during the period into the total cost of the goods sold during the same period.

The difficulty is to find the stock figure, for the stock often varies considerably during the year. There is, for example, no indication in the Trading Account on p. 210 of the average stock held at any time during the trading period. In order to illustrate how rapidity of turnover is determined, we will assume that the average stock of the concern at cost price was £12,000.

The cost price of the goods sold is determined according to the method adopted in the account on p. 211 (Opening Stock, £10,000, *plus* net Purchases, £19,000, *minus* Closing Stock, £13,000), and is therefore £16,000.

The rapidity of turnover is £16,000÷£12,000, which equals about 1·33, so that in this case the stock has been turned over 1⅓ times during the trading period. But this is only an estimate, as the stock figure may be inaccurate, and traders who wish to calculate rapidity of turnover exactly must keep accurate stock books from which the true amount of average stock can be ascertained.

Another method is to ascertain the sale value of the stock in

hand at the beginning of each month and to average the total. For example—

Stock in Hand at Sale Value on

	£		£
1st January . . .	5100	1st July . . .	5300
, February . . .	4700	,, August . . .	3900
,, March . . .	4900	,, September . .	4400
,, April . . .	5400	,, October. . .	4800
,, May . . .	6100	,, November . .	5500
,, June . . .	4900	,, December . .	3800
	Total . £58,800.		

The average for the year is $\frac{£58,800}{12} = £4900$. Supposing the sales figure for the year to be £15,000, then the rapidity of turnover is—

$$\frac{15,000}{4,900} = 3{\cdot}06 \text{ times (approx.).}$$

The term "turnover of capital" is sometimes used instead of "rapidity of turnover."

Rapidity of turnover varies according to the type of business and the sales policy of the business. Thus, some traders prefer to make a large profit on each article sold, in which case the turnover will be small compared with that of a trader in a similar line who makes only a small profit on each article; for the latter, by selling at a lower price, sells more goods and consequently has to buy more stock during the trading period. Similarly, traders who deal in perishable goods have a more rapid turnover than others who hold stocks of imperishable commodities. It is common knowledge that the dairyman carries a very small stock, whereas the jeweller must maintain very heavy and valuable stocks, and, for this reason, the *rate* of turnover of a dairyman is much higher than that of the jeweller.

Dividend Policy.

In the case of a company, the calculation of annual profits is by no means the most intricate of the points of financial policy calling for determination. Even when the profit has been calculated it still remains to decide how much shall be distributed to shareholders. The problem is a delicate one, for shareholders like large dividends and grumble when a company is unable to keep up its level of dividends, whereas, from the company's standpoint, it is desirable to build up strong reserves. How, then, should these conflicting ideas be reconciled? It has to be remembered, too, that the payment of high dividends leads to speculation in a company's shares, and frequently causes them to be boosted to artificially high levels, usually with unfavourable reactions on the company.

These difficulties are increased when there is more than one class of shares, for then the prior shareholders welcome a

conservative dividend policy which husbands the assets and so strengthens the security behind their own shares, whereas the ordinary (and still more the deferred) shareholders like to see dividends distributed up to the hilt, preferring to have the money whilst it is available, rather than see it kept in the business and possibly going eventually to the prior shareholders, if the company should fall on evil times and be wound up.

Sometimes the position arises that the year's profits justify a large dividend but that the cash position does not. In such circumstances, rather than make a new issue of shares out of the proceeds of which to pay the dividends, the directors recommend the issue of *Bonus Shares* by way of dividend. Thus, instead of paying a dividend of 25 per cent. in cash, they may recommend a cash dividend of 15 per cent. plus a share bonus of 10 per cent., which means that every member will receive one new share for every ten he holds.

Such a procedure may or may not be justified. It has the grave defect that it results in a permanent increase of capital, and, unless the rate of dividend can be maintained, it amounts to "watering" the capital. On the other hand, if large profits have been made, but owing to the company's low cash position it is desirable to retain the profits in the business, the issue of Bonus Shares is an obvious alternative to the payment of cash dividends and the issue of further shares. Usually, the suggestion is welcomed by preference shareholders, who like to see profits permanently capitalised, but for precisely the opposite reasons ordinary shareholders object to the proposal though the arrangement benefits them in a saving of income tax and, frequently, in that the total market value of their shares is increased.

Because of the difficulty of pleasing all classes of shareholders in disposing of large profits, directors have gone in for the practice of creating *Secret Reserves.* Reserves disclosed in a company's balance sheet represent past profits which have been withheld to meet possible future losses—to strengthen the company's financial position. Many companies, however, have built up secret reserves by the simple process of understating assets and/or overstating their liabilities.

One object of hiding such reserves is to have a standby against which may be written off subsequent losses (if they should be incurred) without the public or the shareholders being any the wiser. That is to say, losses can be hidden from the knowledge of the general public

The chief advantage of the system is the fact that it saves action, such as the reduction of a dividend, which may lead to a failure of confidence (this applies especially in the case of banking companies); but it has justly been doubted whether shareholders (who are, after all, the owners) should thus be kept in the dark. Such reserves may well be used to cover the fact

that a company is making actual trading losses, thus hiding the need for reorganisation; or they may be used to hide the extent of profits, thus prejudicing shareholders who dispose of their holdings at a price based on published figures.

The greatest evil (as illustrated in the Royal Mail Steam Packet case) arises when Secret Reserves are drawn on to bolster up the Profit and Loss Account and the latter is used to induce people to put money into the concern. This, however, may amount to fraud and is less likely to be practised in the future.

STATISTICAL RECORDS

Statistics have been defined as "numerical statements of facts in any department of inquiry, placed in relation to one another." They take the form of comparative data, usually of figures, over a certain period. It is therefore essential to take some standard as a basis of comparison, and in business this standard is usually the corresponding data of the preceding year, quarter, month or week, or the data of the corresponding quarter, month or week of the preceding year.

There are many business problems which may reasonably be answered by the collection and analysis of statistics. The number of persons carried by the tubes, buses and trams decides, for example, what number of coaches to put on a train, how often trains should be run, and between what hour the services may be reduced. The daily results of a salesman or traveller will show whether or not he is more successful than his colleagues Likewise, daily returns from the departments of a business which has a number of independent departments will indicate whether or not each department is running at a profit, as well as the relative success of the departments. Again, summaries of works expenses, expenses of clerical staff and similar costs indicate how the expenses of running a manufacturing business are distributed. By comparing successive summaries any increase in expenses can be traced and accounted for; similarly, decreased expenses can be credited to the department concerned.

Statistics showing fluctuations in sales for a period of, say, twelve months, or even longer if possible, may serve to indicate that at a certain period or periods of the year a serious falling-off in sales is to be expected. As a result an intensive advertising campaign can be instituted at such periods, or it may be more profitable to hold smaller stocks. A separate record of sales for each class of goods or for each district served may reveal that at a certain time of the year there is a falling-off in the demand for a certain class of goods, while at the same time another class of goods is in great demand. Stocks can be adjusted accordingly beforehand, and, if necessary, salesmen can be transferred from one class to the other.

A falling-off in the demand for any class of goods should receive immediate attention, and if it appears to be a permanent contraction of sales, steps should be taken to cut down the stocks. Similarly, a sudden increase in the demand for any class of goods should be inquired into, and it may be necessary to prepare for a continuance of the increased demand by laying in heavier stocks.

The great point to remember about statistics is that there must be some definite unit upon which to base comparisons. Thus a comparative statement of fuel used in a brick kiln is of little use, but if the figures are accompanied by a statement of production and are expressed in terms of weight of fuel per 1000 bricks produced, then they cannot fail to have a very full meaning.

What Statistics are Necessary in a Business?

Clearly, the collection and analysis of statistical data are imperative in every undertaking of any size. Indeed, all business men are in a sense statisticians, for they frequently base their decisions on an analysis of a set of figures.

It is, of course, essential to study the precise nature and extent of an undertaking before a decision can be taken as to what statistics are to be recorded, but, for an ordinary trading company, the following are necessary:—

(1) A record of sales for weekly, monthly and yearly comparison. This may be elaborated to give a geographical or other analysis of orders.

(2) A record showing the purchases, wages, works expenses, maintenance, distribution and establishment charges, etc., in comparison with the sales. This statement may be drawn up to show the figures for—
   (*a*) The month under review;
   (*b*) The corresponding month of the previous year;
   (*c*) The whole period from the beginning of the year; and
   (*d*) The corresponding period of the previous year.

(3) A stock-book, showing a record of goods received and disposed of and the stock of goods on hand at any given moment (see below). A similar record should be kept of stocks of stationery.

(4) A monthly statement showing the financial position of the company. This will include the cash and bank balances, bills receivable, debtors, etc., on the one hand, and the bills payable, trade creditors, etc., on the other (see page 225).

(5) If the company advertises extensively, and is able to "key" its advertisements, a quarterly analysis should be prepared to show, in respect of each medium—
   (*a*) The amount spent on space;
   (*b*) The number of enquiries received; and
   (*c*) The value of the orders received.

(6) A staff chart showing comparative numbers of employees, and amounts of wages and salaries, in various periods and in each department.

(7) A chart showing the rise and fall in price of some raw material, *e.g.*, coal or iron, is sometimes useful.

(8) Special information, *e.g.*, standard of purity or output per machine

When the management have determined their exact requirements as to statistics, the secretary should draw up skeleton return forms to be completed at stated intervals by the accountant, or by the purchases, sales, advertising, or works manager, as the case may be. From these returns, the required statistics can be built up and set out in the most convenient form.

The chief reports and returns usually called for are as follows :—

(a) *Financial Report* from the Accountant ;
(b) *Credit Report* from the Credit Department ;
(c) *Return of Sales and Enquiries* from the Sales Department ;
(d) *Return of Purchases* from the Buying Departments ;
(e) *Return of Stocks* from the Accountants Department ;
(f) *Staff Report* from the Staff Manager.

Where business is carried on by means of branches, each branch should make detailed daily or weekly returns to head office, showing particulars of the business transacted during the period.

Financial Reports.

In compiling his Financial Returns for the management, it should be the aim of the cashier, the chief accountant, or other official in charge of the financial affairs, to give an abridged statement showing just sufficient detail to keep the management posted as to the financial position and yet sufficiently concise as to be readily assimilated. A model form is appended below:

FINANCIAL REPORT.

For week ending 29th September 19....

Resources.

	£	s.	d.	£	s.	d.
Cash in hand	*30*	*10*	*6*			
On Current A/c.	*573*	*5*	*4*			
				603	*15*	*10*
On Deposit A/c.				*2,000*	*0*	*0*
Bills Receivable, due *October*	*3278*	*3*	*2*			
,, *November*	*2419*	*4*	*3*			
,, *December*	*1036*	*7*	*1*			
				6,733	*14*	*6*
Accounts Outstanding, due *October*	*153*	*4*	*6*			
,, *November*	*97*	*3*	*1*			
,, *December*	*78*	*4*	*6*			
				328	*12*	*1*
Overdue Accounts *£323 6 4* Estimated good				*175*	*3*	*6*
Investments				*5,050*	*0*	*0*
				£14,891	*5*	*11*

MEMORANDUM :—

Shipment per S.S. " Alwin " due Oct. 30th	*£2000*
do. do. *" Jerry " due Dec. 12th*	*4000*
	£6000

Commitments.

		£	s.	d.	£	s.	d.
Bills Payable, due *October*	.	2329	5	4			
„ *November*	.	1873	6	2			
„ *December*	.	941	10	6			
					5,144	2	0
Accounts Payable, due *October*	.	1500	4	3			
„ *November*	.	1221	7	6			
„ *December*	.	830	3	1			
					3,551	14	10
Running Expenses :—							
Wages and Salaries, *October*	.	500	0	0			
November	.	500	0	0			
December	.	500	0	0			
Rent . . . *December*	.	200	0	0			
Debenture Interest *December*	.	500	0	0			
					2,200	0	0
					£10,895	16	10

MEMORANDUM:—

Estimated requirements of our agents—

		£	£
at Tahiti	*October*	1000	
	November	800	
	December	—	
			1800
at Cape Verde	*October*	—	
	November	700	
	December	500	
			1200
			£3000

The example given above shows a favourable financial position, but, in the event of a report showing commitments larger than the available resources, it is the duty of the management to give instructions to the cashier as to the measures to be taken to obtain the necessary funds.

Each report should be compared with the reports for previous periods and any notable variations should be enquired into. If, for example, a continuous increase in the bank balance is revealed, investigation may show that it has arisen from a lower rate of turnover, a decrease in the amount of stocks held, an increase in credit granted by firms from whom goods are purchased, a restriction of credit granted to customers, or from a general increase in trade. In such a case the advisability of utilising the extra cash in the business, rather than letting it lie idle, should be considered.

The Financial Report illustrated above may be supplemented with a further statement showing the working capital of the concern. In this statement the fixed assets are set against fixed liabilities and floating assets against current liabilities so as to show clearly whether the working capital is adequate,

and to enable steps to be taken to meet variations in trade.

If the fixed liabilities are less than the fixed assets, this indicates that a proportion of the working capital has been sunk in fixed assets ; as a result there will be an excess of current liabilities over floating assets, *i.e.*, a shortage of working capital which indicates that the position requires attention. Approximate monthly profit and loss accounts should be submitted with the statements of working capital.

STATEMENT OF WORKING CAPITAL, JUNE 19...

	May.		June.		Remarks.
Floating Assets :	£	£	£	£	
Cash in Bank .	1,500		50		
Cash in Hand .	80		30		
Debtors . .	6,250		6,020		
Bills Receivable .	900		800		
Stock (estimated)	4,400		4,600		
Current Liabilities:					
Sundry Creditors.		7,800		7,000	
Bills Payable .		200		250	
Bank Advance .				4,000	Advance taken for purchase of new premises in Manchester.
Excess of Floating Assets . .		5,130		250	(Total cost, £5000.)
	£13,130	£13,130	£11,500	£11,500	

This statement shows that, whereas in May the financial position was liquid, since the floating assets exceeded current liabilities by £5130, the position in June was that the surplus had been reduced to £250 as a result of the expenditure of £5000 on new premises at Manchester, financed out of a bank advance of £4000. Thus, part of the working capital had been frozen by the purchase of fixed assets. Unless this position were remedied, *e.g.*, by obtaining more permanent capital to pay off the bank advance, the business would be likely to find itself crippled through lack of liquid funds.

Departmental Returns.

In the case of a business with several departments, a monthly return should be prepared showing for each department such details as average stock, sales, wages, number of customers and so on. This will enable the management to see at a glance the exact position of each department and to judge its progress.

More useful information is given if the details for the preceding month are given also for comparison, thus :—

DEPARTMENTAL RETURN FOR JULY.

	Average Stock.		Sales.		Wages.		Number of Customers.	
	June.	July.	June.	July.	June.	July.	June.	July
	£	£	£	£	£	£		
Dept. A	4,731	4,891	3,217	3,502	184	184	5,271	5,443
" B	3,614	3,264	2,613	2,509	150	150	3,129	3,002
" C	10,312	12,124	8,511	10,125	316	300	7,214	9,783
" D	5,813	5,012	4,213	3,819	194	170	4,123	3,542
" E	2,172	3,219	1,827	2,715	120	120	3,427	4,621
Totals .	26,642	23,510	20,381	22,670	964	924	23,164	26,391

The stock for each month is averaged by recording the actual stock held at the beginning of each week and dividing the total by the number of weeks. Before the profit earned by each department can be ascertained, an amount must be allocated for overhead expenses. This involves the estimation of the proportion to be charged to each department of such expenses as advertising, rent, rates, taxes, office expenses, management salaries and carriage. Overhead expenses of this nature influence both the business policy of the firm and the price to be charged for each article or product. An increase in overhead charges involves a decrease in profits, or an increase in price if this can be obtained without decreasing sales to any great extent, or a higher output if this is possible with a relatively small increase in overhead expenses. Any reduction in overhead charges makes for a higher rate of profit provided the output can be maintained. It will therefore be seen that overhead or establishment charges must be closely watched—a duty that is ignored in many businesses, often with serious results.

Recording Statistics.

When the returns required by the management have been received, steps must be taken to record them in a convenient, easily accessible and easily digested form. For the purpose of keeping a continuous and up-to-date record cards are especially suitable, and may be used with advantage for such statistics as branch or departmental sales and purchases.

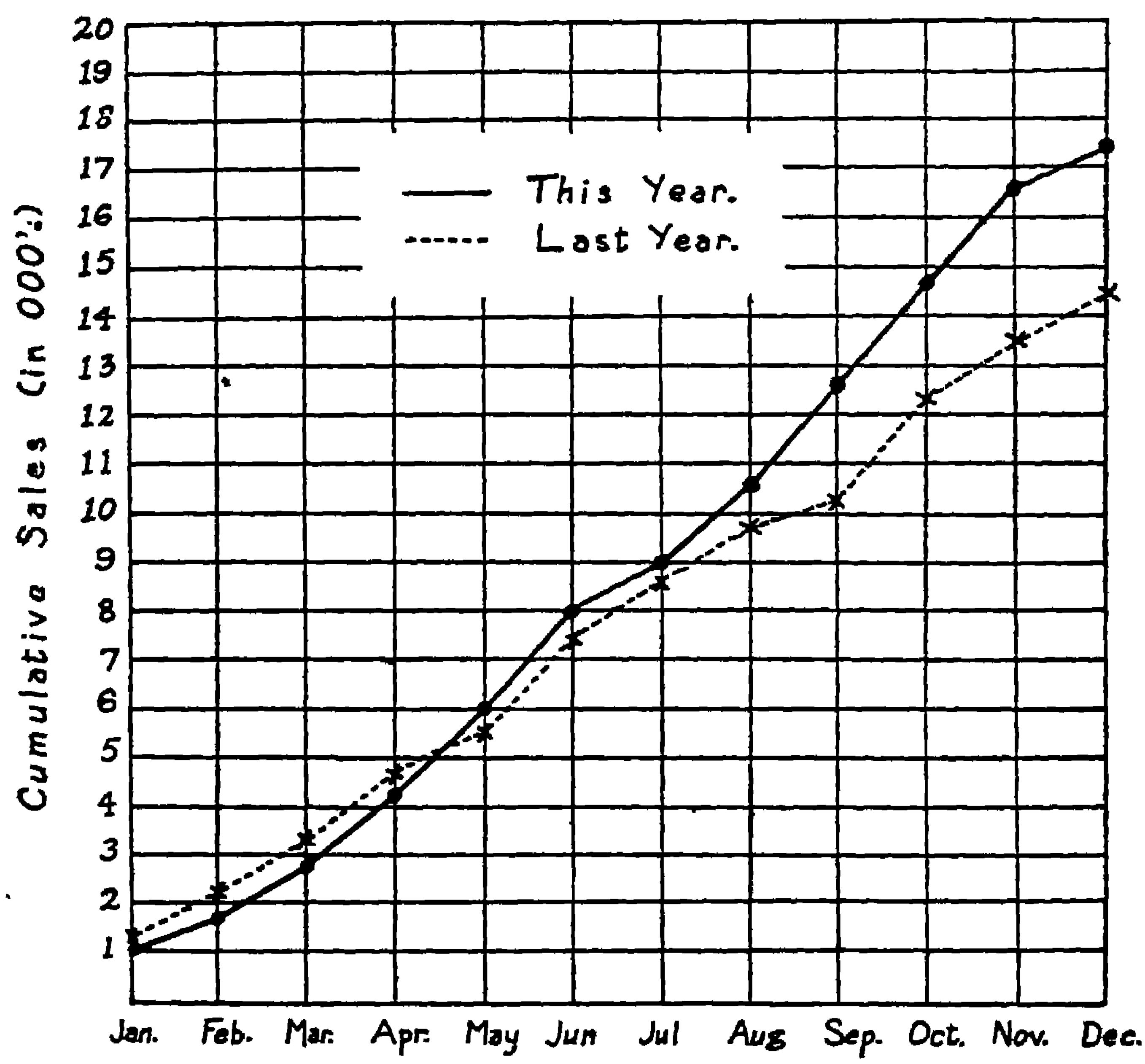
For the guidance of a busy management, possibly no statistical records are as easily comprehensible as those which are drawn up in the form of *graphs*. These are particularly useful for indicating tendencies or trends, but great care is necessary to avoid giving misleading impressions by a wrong choice of scales.

The form of graph which is described as *cumulative* is specially

useful for business records. In this, the cumulative totals of such items as sales or purchases or expenses are plotted periodically, *i.e.*, from the beginning of the year to the end of each successive week or month, and to facilitate comparisons the corresponding figures for the previous year are usually shown on the same chart.

Similar graphs may be plotted of the sales of *each department*, either on the same sheet for comparison of departmental efficiencies, or on separate sheets for each department for comparison with the previous year. A cumulative graph can also

CUMULATIVE GRAPH OF MONTHLY SALES OVER TWO YEARS.



be used to show the cost of the products sold, the constituents of this cost (*e.g.*, Prime Cost, Fixed Expenses, and Variable Expenses), being plotted separately to indicate any general trend—whether they bear an increasing or decreasing proportion to the whole.

Credit Control.

Those businesses in which the granting of credit assumes large proportions usually establish a special " Credit Department " or " Information Department " to watch over all credit operations, and before credit is granted to a new customer enquiries are made by this Department as to his reputation and financial standing. The chief sources of information of this nature are the trader's own bank (which is always willing to assist

in this direction) and the various credit information bureaux (*e.g.*, Perry's, Bradstreets, Stubb's, Seyd's) who, for a small subscription, will furnish up-to-date, and usually reliable, trade information regarding any trader of importance.

When credit is granted to a new client, particular note should be taken of the manner in which the initial accounts are settled. If these are not settled within a reasonable time or if the debtor creates difficulties over matters of trifling importance with the obvious intention of delaying payment, credit should be withdrawn immediately. On the other hand, if the accounts are settled promptly and the conduct of the debtor is in every way satisfactory, the credit department may safely relax part at least of its vigilance. Strict vigilance must be resumed, however, on the occurrence of any rumour as to a debtor's instability, and credit should be stopped immediately when a debtor fails to honour a bill or when one of his cheques is returned from the bank on account of insufficiency of funds. In some businesses it is customary periodically to make renewed enquiries as to the financial reputation of customers to whom credit has been granted, and this is to be commended as a sound policy. In every case, however, a limit should be placed on the amount of credit to be granted, and this limit should not be exceeded without special consideration and the authority of a responsible official.

The other side of the picture also is worthy of note. A trader who conducts his business with the assistance of credit granted by others must be particularly careful to keep his reputation for solvency above suspicion. The slightest rumour that his financial position is weak may cause creditors to call in their debts and to refuse to grant any further accommodation. In no circumstances should accounts be allowed to become overdue. On the contrary, they should be paid before the due date, for this will establish a reputation for prompt payment which will be of great use when credit is required from others In the same way, all bills of exchange should be honoured on their due dates, and in no circumstances should cheques be issued when there are not sufficient funds in the banking account to meet them.

Budgetary Control.

The system of Returns and Reports such as those referred to in the foregoing paragraphs is, in any large concern, part of an organised system of *Budgetary Control*, or scientific financial management, which involves the setting up of a standard for every measurable commercial and industrial activity, with a view to ensuring that the programme of each department (sales, advertising, production, etc.) is entirely adjusted to the policy of the business. In this way departmental heads are tied down to an exact statement of what they can do on the basis of an agreed policy. It is for this very reason—that they are forced to make

careful forecasts—that budgetary control is often resented by the persons concerned.

Though it greatly facilitates supervision, budgetary control does not thereby make management mechanical; on the contrary, it aims at adjusting departmental programmes to a certain policy and at ensuring that a policy once undertaken shall be met. It does not relieve the management of the responsibility of deciding what the policy is to be.

Methods of Budgetary Control.

The period chosen for budget estimates is in no sense fixed, but it should be the most convenient having regard to the nature of the business. Usually twelve months is taken, but where it is possible to make accurate estimates for only six or three months ahead, that period should be chosen.

The first step is to estimate the volume of sales (*i.e.*, the *sales quota*) for the period. This calls for an exhaustive analysis of every element entering into the market conditions, and will probably raise many problems which were previously unnoticed, including the consideration of changes in design, size, etc., to increase sales; the reasons for differences in amounts of sales in various districts, and the relative merits of various methods of distribution.

The programme and expenses for each department are then determined on the basis of this sales quota. The advertising allocation is made; the costs of purchasing and of production, based on the given figures, are estimated; and expenditure on rent, rates, taxes, office and distribution for the period, is calculated. These figures will show whether the estimated volume of business is likely to cover expenses and how far it is safe to take business at lower prices.

Budgetary control does not end here, however. Periodical reports should be prepared showing how actual results compare with the estimate, and these should be submitted for consideration to the budgetary controller, who may suitably be the accountant.

Any falling-off in sales is thus made obvious, and if sales cannot be stimulated to remedy the shrinkage, then a change in policy is indicated. Similar reports will show divergences from budget estimates of costs.

If the business is to respond readily to variations in market conditions, the budget must be elastic and not rigid. Hence the heads of various departments may be given authority to vary their particular budget within the limits of the allocated expenditure, but any expenditure beyond the limit should be submitted to the Board for consideration, and approval or rejection as the case may be.

In some cases a separate financial budget is drawn up in which the financial effects of each item in the general budget

are taken into account. In this, consideration is given to the time when important receipts or disbursements are to be expected so that receipts and expenses can be evened up as far as possible in order to minimise borrowing, and arrangements made for the temporary investment of any surpluses.

Objects of Budgetary Control.

In brief, the objects of budgetary control are, first, to establish a clearly defined *sales guide* affording an accurate forecast of the future of the business which can be used not only as a basis for production, but also as a foundation for a merchandising campaign; secondly, to formulate a *production guide* so that (*a*) an intelligent programme of manufacture will ensure a supply of commodities in advance of demand, while keeping stocks in proportion to that demand; (*b*) fluctuations of employment which tend to decrease efficiency and contentment will be avoided, and (*c*) maximum production shall be obtained in the season when efficiency is at its highest point and the labour supply is ample.

The third object is to afford a *financial guide* (*a*) as to the amount of working capital that is permanently required by the business; and (*b*) as to the amount of borrowing that should be arranged for so as adequately to cover peak production.

To ensure proper budgetary procedure there are three fundamental requirements:—

(*a*) *A sound plan of organisation* clearly defining and allocating the authorities and responsibilities of the various departments;

(*b*) *The maintenance of records* which allocate responsibility on each unit of organisation;

(*c*) The budget itself must embody *a forecast of future accounts* allocated among the various departments.

Briefly, budgetary control involves the settling of duties and the determination of responsibilities. In effect, it involves a certain amount of *decentralisation* because, after the initial stages have been completed, each department becomes, within certain limits, its own financial controller.

Business Forecasting.

In many trades there is what is known as a "seasonal trend" of trade, that is to say, the volume of business fluctuates more or less regularly according to the season of the year. A simple example is the sale of iced drinks and hot drinks. The former have little sale in the winter, whilst the latter have little sale in the summer. In addition to seasonal fluctuations, the general state of trade is subject to wide fluctuations over periods of years. This is known as the phenomenon of the "Trade Cycle" and is discussed in Chapter 47, but it is mentioned here because

the object of Business Forecasting, which is to prepare for and take advantage of both seasonal and cyclical fluctuations, may be attained best by the study of statistics of each individual business in relation to the published statistics of trade generally. The statistics required for this purpose are yielded by the reports and returns which have been discussed above. If the figures they contain are collated and put into easily digestible form, for which the graph is probably the best medium, they are invaluable as an aid for determining future operations. But the extent to which a business can be run on scientific forecasting principles must depend to a large extent on the nature of its operations. In some businesses much time could be wasted and little gain achieved; in others an hour or two wisely spent in the business of prophesying and anticipating may result in the prevention of heavy losses.

QUESTIONS BEARING ON CHAPTER 16

1. Explain why a business must have working capital and how it utilises such capital. What would happen if a business had insufficient working capital for the trade it desired to carry on? (*R.S.A., Stage II Inter.*)

2. A trader has a capital of £10,000, of which £4500 is stock. He turns over his stock five times a year and makes 20 per cent. gross profit on his sales. What percentage does his annual gross profit bear to his capital? (*R.S.A., Stage I, Elem.*)

3. The consolidated profits in the case of eight representative motor firms in the year 1925 amounted to £679,000, which was 8·4 per cent. of their capital. Dividends amounting to £395,000 were paid to shareholders by these firms. The TOTAL capital invested in the *whole* motor industry in that year was £90,157,000. Find (*a*) the amount paid in dividends in the whole industry, (*b*) the ratio of dividends to profits, assuming that, in each case, the experience of the whole industry was the same as that of the eight representative firms. (*R.S.A., Stage I, Elem.*)

4. What is meant by the working capital of a firm and how is its amount related to rapidity of turnover? (*R.S.A., Stage II, Inter.*)

5. A manufacturer makes a number of articles by means of different processes conducted in five departments. The men who are engaged on the different processes are paid by piece-work. There are a number of men employed on day work whose time is divided equally over the five departments. Find the cost of a gross of articles produced. (Express your answer substituting algebraic symbols for those figures whose amounts you require.) (*R.S.A., Stage III, Advanced.*)

6. Discuss the advantages to a manufacturer of a good system of cost accounts. (*R.S.A., Stage III, Advanced.*)

7. Draft such a form of financial statement, for submission to the monthly board meeting of a manufacturing company, as in your opinion will adequately indicate the course of business during the preceding months. (*S.A.A., Final.*)

8. Make a neat tabular arrangement of the following statement, fill

in the missing figures (*a*), (*b*), (*c*) and (*d*), and find the average monthly percentage during the quarter:—

MONTH.	SALES.	SELLING EXPENSES.	PER CENT.
1929.			
January . . .	£34,916	£3638	10·4
February . .	£36,742	£ (*a*)	11·7
March . . .	£44,330	£5763	(*b*)
TOTALS . . .	£115,988	£ (*c*)	(*d*)

(*London Chamber of Commerce, Certif.*)

9. A merchant's sales for a year amount to £25,000. His gross profit is £5600, and his net profit, £1380. Show the rate per cent. each of these items bears to his sales. (*London Chamber of Commerce, Certif.*)

10. Examine the influence of overhead charges on business policy, with particular reference to the fixing of prices. (*R.S.A., Stage III.*)

11. "Most of the cost systems in use . . . have been devised by accountants for the benefit of financiers, whose aim has been to criticise the factory and to make it responsible for all the shortcomings of the business."

Discuss this statement, giving your opinion on the methods generally employed for estimating the cost per article or per unit of manufactured product. (*R.S.A., Stage III.*)

12. Discuss the relative results obtained by two traders in the same line, one of whom employs a capital of £10,000 and carries an average stock of £7000, which he turns over three times per annum at a gross profit of 30 per cent. on his sales, the standing expenses being £5000 per annum. The other employs a capital of £12,000, carries an average stock of £8000 which he turns over five times per annum at a gross profit of 20 per cent. on sales, the standing expenses being £5000 per annum. (*R.S.A., Stage II.*)

13. What rules would you apply to the compilation of business records of trading results in regard to turnover, etc., in wholesale and retail trade so as to secure clearness of presentation, ease of apprehension and utility to the business managers? (*R.S.A., Stage II.*)

14. Contrast the merits of the ratio of net profit to capital and of the percentage of net profits to sales as tests of the profitableness of a wholesale trader's business. (*R.S.A., Stage III.*)

15. Define the purposes of a costing system in the case of a manufacturing business and explain in elaboration of your definition the principles on which it should be based and operated. (*R.S.A., Stage III.*)

16. Tabulate the elements constituting (*a*) prime cost, (*b*) factory cost, (*c*) total cost, (*d*) selling price, in the case of the output of some manufacturing concern with which you are familiar. (*R.S.A., Stage III.*)

17. (*a*) Explain what is meant by Gross profits and by Net profits, and show how the latter are obtained.

(*b*) A merchant purchased a 4000 lb. lot of materials (barytes, arsenic and water) for the purpose of making paint, for £115. Direct wages were £6; indirect wages £1; establishment charges £2, 10*s*. 0*d*. The evaporation of the water and some of the chemicals reduces the 4000 lb. by 498 lb. What is the cost per lb. of the finished product to the merchant?

(*London Chamber of Commerce, Higher Certif.*)

18. How are (*a*) gross profit, (*b*) expenses, (*c*) net profit, and (*d*) turnover related to each other?

From the following information extracted from the books of a trader, find (*a*) his gross profit, (*b*) the percentage of gross profit on the turnover. Stock, 1st January 1927, £5176; Stock 31st December 1927, £5025; Purchases, £13,850; Sales, £17,500; Purchases Returns, £256; Sales Returns, £520. (*R.S.A., Stage I.*)

19. What do you understand by the term "turnover"? During the year 1928 a trader's sales amounted to £35,628. His gross profit was £9210 and his net profit was found to be 5·1 per cent. on his turnover. What were his expenses of conducting the business? (*R.S.A., Stage I.*)

20. A trader on 1st January 1928, owned premises valued at £8325 and stock in hand which cost him £3210. He owed various creditors £910 and had cash at the bank £120. He turned over his stock five times during the year and made a gross profit equal to 25 per cent. of his total sales. What percentage did this gross profit bear to his capital? (*R.S.A., Stage I.*)

21. Why does a trader usually calculate his profits as percentages of turnover rather than as percentages of cost? (*R.S.A., Stage II.*)

22. The ratio of total expenses to gross sales taken over a period of one year is often called the "operating ratio."

Discuss its importance and examine the circumstances under which it may be allowed to approach unity. (*R.S.A., Stage II.*)

23. A trader's account for 1928 shows his gross profit as £10,925. Draw up an account, supplying figures and items of your own, to show how his net profit for the year would be ascertained.

Using the same gross profit, draw up accounts to show a net profit of 5 per cent. on turnover. (*R.S.A., Stage II.*)

24. Fill in the blanks in the following table, which exhibits a firm's trading results over a period of three years:—

Year.	Turnover.	Gross Profit.	Percentage of Gross Profit to Turnover.
1926	£102,356	£27,536	—
1927	£110,847	£29,475	—
1928	£115,290	—	26

Calculate the rate of gross profit earned for the whole period of three years. (*R.S.A., Stage I.*)

25. What records and statistical data would be required in order to ascertain whether the stock of goods held by a firm was larger than its turnover justified? (*R.S.A., Stage II.*)

26. Suppose you were in charge of a large business with five distinct selling departments, what records and statements would you call for month by month to enable you to judge correctly concerning the progress of the firm?

Give in outline (with imaginary figures) the records for a single month. (*R.S.A., Stage II.*)

27. You act as secretary to a large manufacturing business, the Chairman of which has to go abroad for some months. In order to show a continuous history of the business done, what form of monthly returns would you suggest should be sent to him?

Draft suitable forms giving a brief explanation of your ideas. (*A.I.C.A., Final.*)

28. Enumerate the constituents of (*a*) prime cost, (*b*) factory cost, (*c*) total cost, (*d*) selling price in the case of a manufacturing business producing a standardised article for which there is a steady demand. (*R.S.A., Stage III.*)

29. The meaning of the word " Capital " is not always the same. Its significance is apt to vary with the context."

Explain and discuss this statement. (*R.S.A., Stage II.*)

30. Draw up a comparative table (choosing figures of your own) to illustrate the fact that a large retail business does not necessarily make a larger net profit per *unit* of turnover than a small business, and calculate in each case the net profit per cent. on turnover and capital. (*R.S.A., Stage II.*)

31. Draw up a simple balance sheet to illustrate the difference between the capital a sole trader has *in use* and the capital that he *owns*. (*R.S.A., Stage II.*)

32. A trading company notices that its bank balance is gradually increasing. Give five possible reasons for this. (*C.A., Inter.*)

33. Explain comprehensively, but concisely, in your own language as far as possible, the meaning of the term " Balance Sheet." A text-book or stereotyped definition merely is not required. (*A.I.C.A., Inter.*)

34. What is capital? Distinguish between the amount of capital owned by a firm and the amount employed by the firm in carrying on its business. (*London Chamber of Commerce, Certif.*)

35. A trader on 1st January 1926, had premises valued at £4500 and stock in hand which cost him £2500. He owed £625. He turned over his stock four times during the year and made 16 per cent. on his sales each time.

What percentage did his profit bear to his capital? (*R.S.A., Stage I.*)

36. Discuss the merits of the ratio of net income to the firm's capital, the ratio of net income to total assets, and the percentage of net profit to sales as tests of the profitableness of a wholesale warehousing business. (*R.S.A., Stage II.*)

37. Explain the advantages of a rapid turnover of goods as compared with a slow turnover. (*C.A., Inter.*)

38. Describe the components that go to make up the cost of the finished article from direct expenses to selling price. (*London Chamber of Commerce, Higher Certif.*)

CHAPTER 17

THE LEGAL SIDE OF BUSINESS

THE law is nowadays a matter of such intricacy that no sound business man would attempt to solve important legal questions affecting his business interests without first of all consulting his solicitor ; but there are certain elements of law which stand out, as it were, like finger-posts, or rather, like danger signals, and indicate where difficulty is likely to arise and where legal advice is desirable. These, it is suggested, should be known to every person who in the course of his business is brought constantly into legal relations with other parties.

Unfortunately, many business men are so ignorant of even the rudimentary principles of the law that they do not realise when they are treading on dangerous ground, whereas an acquaintance with even such a bare outline as is given in this chapter would enable them to avoid many of those difficulties which not only lead to conflict with their fellows but are also a source of considerable loss of time, money and effort.

The Legal Machine.

The law of this country is governed partly by *statute* and party by *case-law* (*i.e.*, legal opinion as indicated by the findings of judges in past law cases), the whole being interpreted in the light of the *common law*, which is an unwritten code of law built up by centuries of customs.

The legal code is administered by three divisions of the High Court—*the King's Bench* (which deals only with matters relating to contract), *Chancery* (dealing with such matters as patents, copyright, etc.) and *Probate, Divorce and Admiralty* (which describes itself). Actions in the two latter must be taken direct to the relative division of the High Court, whereas those in the King's Bench division must be taken first to a County Court (if the amount at stake does not exceed £100). In either case an appeal against the judgment of the High Court may be made first to the Court of Appeal and finally to the House of Lords.

THE LAW OF CONTRACT

Business transactions are almost always based upon agreements known as *contracts*.

A contract has been defined as " *a legally binding agreement*

made between two or more persons, by which rights are acquired by one or more to acts or forbearances on the part of the other or others."

Agreement, then, is the essence of contract, but agreement is not in itself sufficient, for some agreements are not binding at law. Apart from this, certain formalities and considerations must be observed in all cases before an agreement can be legally enforced, even though in its nature it is binding, and, during the common round of business, contracts are frequently made which, through some oversight, are unenforceable.

An agreement exists when two minds come together with a common intention. The intention must be common to both—there must be *consensus ad idem.* To be a contract, the agreement must give rise to rights and liabilities which the law recognises, and there must be a distinct intention to affect the legal relation between the parties by the creation of these rights and obligations. In other words, both parties to a contract must have a clear understanding of the rights and obligations into which they enter. It will be clear from the foregoing that, while all contracts are agreements, every agreement is not necessarily a contract.

Many agreements are made between persons who have no intention to undertake any legal obligation to carry them out; thus, if I promise to meet my friend on London Bridge next Wednesday at 5.15 p.m., neither I nor my friend has any intention that failure on my part to fulfil that promise shall result in a legal action by my friend. It is obvious that something further than mere agreement is necessary before the law will assume that there is an intention to make a *binding* and enforceable contract.

Forms of Contract.

It is possible to classify contracts in several ways, but for present purposes only the broadest and most important classification need be indicated. A contract may be *either* (1) implied; *or* (2) express. The former term is understood to mean that the actual terms of the contract are never stated either by word of mouth (orally) or in writing, but are rather tacitly understood between the two parties, *e.g.*, a passenger who boards a bus makes an implied contract with the person or firm who runs the bus to pay the proper fare for the journey.

An express contract may be (1) oral; *or* (2) written; *or* (3) under seal, and these divisions are of extreme importance, for certain contracts must be written and others must be under seal.

Simple or Parol Contracts include those which are made orally or in writing. In this sense writing does not mean "writing under seal," but merely the setting down in writing of the terms of a contract for the greater satisfaction of the parties concerned, and in some cases for the purpose of rendering the

contract legally enforceable, for certain contracts must be in writing if they are to be enforced at law. Other contracts cannot be enforced at law unless there is some form of *evidence* in writing (see page 242).

SPECIALTY CONTRACTS (contracts under seal) are those embodied in an instrument in writing which is signed, sealed and delivered (*i.e.*, a deed or covenant). Certain contracts *must* be made by deed, otherwise they are void (*e.g.*, Gratuitous Promises, Conditional Bills of Sale, Transfers of British Ships or of shares therein). There are three essentials to a deed: (1) writing, (2) sealing, and (3) delivery. Of these the first has already been discussed.

"*Delivery*" is the act of handing the deed to another party. It may be actual or constructive, *i.e.*, the deed may actually be handed over to another party (*actual* delivery), or the words "I deliver this as my act and deed" may be recited without any further formality (*constructive* delivery).

The advantages of specialty contracts lie chiefly in the importance attached in law to the solemnities of form which must be observed when contracting under seal, for the law will not lightly allow interference with the terms of such a contract. The parties thereto are *estopped* from disputing terms or statements therein except when fraud or duress is proved or a latent ambiguity exists. Moreover, although writing is often only *evidence* of a contract, writing under seal is *actually the contract itself*. The terms of the contract are all set out in the deed and they cannot be varied or added to by oral evidence.

In spite of the advantages of specialty contracts, however, the majority of contracts entered into are in the form of "simple" contracts, chiefly because of the characteristic indicated by their name—simplicity. There is no solemn formality about simple contracts; they are conveniently and easily made, and have the added advantage of being much less expensive than specialty contracts, the stamp duty and legal expenses on which are comparatively heavy.

Essentials of a Valid Contract.

In whatever way a contract is formed, however, it will not be legally binding on the parties thereto or enforceable in a Court of Law unless certain legal requisites are complied with. The chief of these are: (1) Offer and acceptance; (2) Consideration; (3) Legality of Form; (4) Capacity of the parties; (5) Possibility and legality; (6) Absence of Fraud or Mutual Mistake.

OFFER AND ACCEPTANCE

Offer and acceptance together make up the agreement which lies at the root of every contract, for a contract comes into

existence only when a definite offer has been unconditionally accepted, *i.e.*, when there is a *consensus ad idem* between the parties as to the common intention contemplated in the agreement. And it matters not if a formal contract has to be drawn up later, unless the drawing up of that formal contract is actually a condition of acceptance; otherwise the contract is made up immediately the offer is accepted.

The Rules governing Offer and Acceptance are important but not in any way complicated :—

(1) The offer may be made either *generally* or to a *definite person*; but acceptance must be made by a *specific* person or persons. Thus an advertisement may constitute an offer to the public, and acceptance may be made by any individual complying with the terms of the offer, but no contract is made until the offer has been accepted by compliance with its terms by some definite person who has knowledge of the offer and who intentionally accepts it.

(2) The offeror (the person making the offer) may *attach any conditions* he pleases, but they must be brought to the notice of the offeree (the person to whom the offer is made) *at the time when* the offer is made.

(3) The offeror cannot bind the other party by any attempt to *dispense with actual communication* of acceptance; in other words, no contract exists until the offeree has signified his acceptance of the offer; but the acceptance may take the form of a direct communication or it may be expressed by the performance of some act which acceptance entails and which is tantamount to express acceptance.

(4) The *offer may be revoked* at any time before acceptance (unless there is a subsidiary contract to the effect that an *option* to accept shall remain open for a certain time). The lapse of the specified time (or of a reasonable time if none is specified) or the death of the offerer or offeree revokes the offer.

(5) *Revocation, to be effective, must be communicated* to the offeree and must actually reach him before he has accepted; otherwise, his acceptance creates a binding contract.

(6) *Acceptance must be unconditional;* an offer must be accepted in all its terms, and any variation or modification made in what purports to be an acceptance renders it not an acceptance but a new offer to the former offeror.

(7) Acceptance can be made *only by the party to whom the offer was made* and can be effected only by communication with the offeror or by doing some overt act in conformity with the offer.

(8) Acceptance must be made within the *time stipulated* or *within a reasonable time*, and before notice of revocation. Once acceptance is given it is complete and irrevocable and a binding contract exists, provided that the other essentials are satisfied.

Contracts made by Post.

The use of the post in making contracts presents certain problems which can be solved only by ascertaining whether the post is the agent of the offeror or of the offeree. This will depend entirely upon the circumstances, but usually it is found that the post is agent of the offeror, in which case the following rules apply :—

(1) The offer is complete only when it actually *reaches the offeree.*
(2) Acceptance is complete as soon as the *communication of acceptance is posted.* Thus, even if the letter is lost in the post or the offer is revoked before the acceptance reaches the offeror, nevertheless the acceptance is complete and binding.
(3) Revocation of the offer is ineffective unless it reaches the offeree before he has accepted. Consequently, a revocation which is lost in the post or for any other reason fails to reach the offeree before he accepts is inoperative.

The whole point is that *communication to the agent* (i.e., *the post) is tantamount to communication to the principal.*

CONSIDERATION

CONSIDERATION is another essential feature of all simple contracts although with one or two rare exceptions, it is not necessary in the case of contracts under seal. Consideration has been defined as "*Some right, interest, profit or benefit accruing to one party, or some forbearance, detriment, loss or responsibility, given, suffered or undertaken by the other.*"

Consideration must be *real*, and to fulfil this quality it must : (*a*) be something that is not already legally enforceable by the other party ; (*b*) move from the person to whom the promise is made ; (*c*) be definite and not vague ; (*d*) be legal, and (*e*) have some ascertainable value, however small.

Consideration must not be *past* ; thus, the motive of gratitude for a benefit received in the past is not sufficient to support a simple contract, but any small forbearance or undertaking, etc., is adequate. In the case of a cash sale in a shop, consideration passes at once between buyer and seller in the form of money on the one hand and goods on the other ; in the case of a shop-

keeper buying from a wholesaler on credit, consideration passes in the form of goods on the one hand and the promise to pay for them on the other. The promise, and not the fulfilment of it, is the consideration for the goods. The liability to fulfil the promise is the outstanding obligation which can be enforced by an action on the contract.

EXECUTED CONSIDERATION is that which is wholly performed by one party immediately the contract is entered into, *e.g.*, when goods are purchased in a shop on credit the shopkeeper has done all that is due from him in handing over the goods.

EXECUTORY CONSIDERATION is that obligation which remains to be performed. In the example given above the consideration given by the customer (*i.e.*, his promise) is executory, since he promises to pay at some future date.

LEGALITY OF FORM

Certain contracts, in order to be valid, must be made in a specified form; *e.g.*, under seal or in writing. Others, to be valid, must be evidenced by writing.

CONTRACTS WHICH MUST BE MADE BY DEED.—The following contracts are of no legal effect unless made under seal:—

(*a*) Contracts for the transfer of shares in British ships.
(*b*) Contracts for the sale of sculpture, with the copyright.
(*c*) Conveyances of land, legal mortgages, and leases for more than three years.
(*d*) A promise without any consideration.
(*e*) Transfers of shares in companies (where their regulations so require).

CONTRACTS THAT MUST BE MADE IN WRITING.—Other contracts must actually be *expressed* in writing, and these include:—

(*a*) Bills of exchange (and promissory notes).
(*b*) Assignments of copyright.
(*c*) Contracts of marine insurance.

CONTRACTS THAT MUST BE EVIDENCED BY WRITING.—The following classes of contracts are unenforceable at law unless they are *evidenced* by some note or memorandum in writing, *i.e.*, these contracts may be perfectly valid, but no *action* can be brought on them unless and until the necessary evidence comes into existence:—

(*a*) A contract by an executor or an administrator to pay out of his own estate the liabilities or the damages of the deceased. (*Statute of Frauds*, 1677, *Section* 4.)
(*b*) A contract of guarantee or suretyship. (*Statute of Frauds*, 1677, Section 4.)
(*c*) An agreement made in consideration of marriage; that is, not a promise to marry, but a promise conditional

upon a marriage taking place. (*Statute of Frauds*, 1677, Section 4.)

(*d*) A contract relating to the sale of land. (*Law of Property Act*, 1925, Section 40.)

(*e*) An agreement not to be performed within a year from the making thereof. (*Statute of Frauds*, 1677, Section 4.)

With regard to (*e*), contracts not to be performed within a year, the following rules have been established :—

(1) If one party does intend and was intended to carry out his side of the contract within one year, no writing is necessary, even though the *other* party cannot carry out *his* side of the contract within the year.

(2) If the agreement is for a definite period longer than one year, writing is necessary, even if the acts contemplated are physically capable of being performed within one year. Contracts of employment for several years that are subject to termination by notice would come within this class.

(3) If the agreement is for an indefinite period which may be more or less than one year, no writing is necessary.

The note or memorandum which is required to make these contracts enforceable need not be made at the time when the contract is entered into, but it must exist before any action can be brought. There is no special requirement as to form; the note is expected to be "just such a memorandum as merchants in the hurry of business might be supposed to make." The particulars must, however, include: (*a*) The names of the parties; (*b*) The subject-matter of the contract; (*c*) The consideration (except in the case of a guarantee); (*d*) The signature of the party to be charged, or of his agent in that behalf.

The memorandum of agreement usually requires a sixpenny adhesive stamp (to be affixed and cancelled at the time of execution, failing which an impressed stamp must be obtained within fourteen days), unless the agreement is under seal, when a 10*s*. deed stamp is required. But if the subject-matter is of less value than £5 or is incapable of pecuniary measurement, or where it relates to the hire of a labourer or servant or to the sale of goods, no stamp is required.

CAPACITY OF PARTIES TO CONTRACT

A contract will be of no avail unless the parties have legal capacity or power to bind themselves by contract, and what is known as "incapacity to contract" may arise from a variety of reasons :—

(1) *Political or Professional Status.*—Representatives (such as ambassadors) of foreign states in this country cannot

be sued on contracts unless they agree to submit to the jurisdiction of our Courts. Barristers are debarred by the rules of their profession from suing for their fees.

(2) *Infancy.*—Persons under the age of 21 are protected by the law from the burden of certain contracts.

(3) *Artificial Creations of the Law, such as Corporations,* acquire only limited powers under such terms as the law may impose, *e.g.*, the powers of a limited company are closely defined by its Memorandum of Association.

(4) *Permanent or Temporary Impairment of Faculties, e.g.*, lunacy and drunkenness.

Void and Voidable Contracts.

Before considering the peculiarities of contracts entered into by these persons it is necessary to understand the difference between contracts which are *void* and those which are *voidable.* The terms are self-explanatory; if the contract is *void* it is not binding and is of no legal effect; but if it is *voidable* the contract may, at the option of the party by whom it is voidable, be either enforced or denied.

Contracts made by Infants.

Contracts entered into by infants are either void, voidable or valid.

VOID CONTRACTS BY INFANTS.—Contracts absolutely void when entered into by an infant are: (1) Any agreement for the repayment of money lent or to be lent; (2) Any contract for the supply of goods other than necessaries; (3) Accounts stated, *i.e.*, admissions of money due.

VALID CONTRACTS OF INFANTS.—These are of three classes:—

(1) *Contracts for "necessaries"* supplied at a reasonable price. Necessaries are defined as "goods suitable to the condition in life of such infant and to his actual requirements at the time of the sale and delivery." Whether a thing or article is a necessary depends on the circumstances of each case (*i e.*, the standard of living and the nature of the infant's occupation). Not only must the goods be suitable to the status of the infant, but they must also satisfy the requirement that he is not already sufficiently provided with such articles. An infant's liabilities in this regard extend to necessaries for his wife and children.

(2) *Contracts for the infant's benefit,* provided that the terms are reasonable, *e.g.*, contracts concerning education or apprenticeship. A contract of service will be enforced against an infant if the Court deems it to be to his advantage.

(3) *Marriage* is a binding contract, but a promise to marry is not.

VOIDABLE CONTRACTS OF INFANTS.—Contracts entered into by infants which do not come within the above classes are

voidable. Contracts of continuing liability such as those o tenancy, partnership, or of membership in a company will however, bind an infant unless he expressly repudiates the contract during infancy or within a reasonable time after his coming of age. In such cases, if benefits are accepted after coming of age, or if repudiation is not made within a reasonable time after attaining majority, the late infant will be held liable on the contract.

Married Women.

A married woman, nowadays, can enter into, sue and be sued on, contracts just as if she were a single woman, and her husband need not be joined with her as plaintiff or defendant. Any damages recovered against a married woman are payable out of her separate estate so far as that is free from restraint on anticipation.

The term "*Restraint on Anticipation*" applies to property which has been settled on a woman with the provision that she shall enjoy the income thereon as it falls due, but shall not mortgage the property or anticipate the income in any way, so that her creditors may not touch the capital sum of the property. The power to create restraints upon anticipation has been abolished as from January 1st, 1936, so that no new restraints can now be made (*although existing restraints continue in force*; restraints imposed by wills are regarded as having been made at the time the wills were executed, but where a testator dies after 1945 his will, whatever the date of execution, will be deemed, for this purpose, to have been executed after January 1st, 1936).

Corporations.

The general rule is that contracts by a corporation shall be made under the seal of the corporation, but in most cases the law under which the corporation is formed settles the manner in which its contracts shall be made. Generally speaking, the following are exceptions to the general rule which requires the use of a seal in contracts entered into by a corporation :—

(*a*) Contracts of trifling importance, urgent necessity or frequent occurrence.
(*b*) Contracts entered into by trading corporations.
(*c*) Where one party has done all he was bound to do under the contract, *i.e.*, where the consideration was executed on one side, that party will not be debarred by the absence of sealing from enforcing payment or performance.
(*d*) Contracts entered into by companies governed by the *Companies Act*, 1929 (see Chapter 9).
(*e*) Contracts by those local authorities that are governed by the *Local Government Act*, 1933.

Lunatics and Drunken Persons.

Most contracts entered into by lunatics or drunken persons are *voidable*, but such persons are always liable for the reasonable price of necessaries supplied to them. In order to avoid a contract, the party pleading drunkenness or insanity must prove :—

(*a*) That he was so insane or drunk at the time of making the contract that he was incapable of realising its import; *and*

(*b*) That the other party knew of his condition.

Contracts entered into by a drunken person may be ratified by him when he is sober; and a lunatic may ratify during his lucid intervals contracts entered into while he was insane.

LEGALITY AND POSSIBILITY

It has already been pointed out that no contract can be valid unless it is both *legal* (*i.e.*, within the law and capable of being enforced at law), and *possible* (*i.e.*, capable of being carried out).

Illegal Contracts.

An illegal contract, whether the illegality is in respect of the promise, the consideration, or the subject-matter, is absolutely *void* even though made under seal. The following are the chief types of contracts which are illegal and therefore void :—

(1) Contracts to commit a crime or civil wrong.
(2) Contracts in defiance of justice (*e.g.*, bribery of a witness)
(3) Contracts of an immoral nature.
(4) Contracts involving corrupt practice (*e.g.*, sale of a public office).
(5) Contracts in undue restraint of trade.
(6) Contracts made illegal by Statute.

Restraint of Trade.

In business the most common form of illegal agreement is that known as an agreement in "*restraint of trade.*" The term applies to those contracts which *unduly* restrict persons from following their trade or profession, the restriction being either as to time or as to area. When considering whether a particular restraint is reasonable or not, both the time and area restrictions must be taken into account. If the restraint is unreasonable, it is considered to be contrary to the public interest and is therefore void, but a restraint which is reasonable between the parties and is not against the public interest will be upheld. What would be too wide a restriction in one case may be quite

reasonable in another. Thus, it has been held that a promise not to manufacture guns or ammunition in any part of the world was not an undue restraint because the customers of such a business were limited in number.

The three chief forms of contract which tend to infringe the requisite of unrestrained trade are: (1) contracts of employment between employer and employee; (2) contracts for the sale of a business with its goodwill; and (3) contracts for the sale of goods.

The law discriminates between a promise made to the purchaser by the vendor of the goodwill of a business, and a covenant exacted by an employer from an employee. In the latter case a covenant not to compete in any way will not be upheld, although a reasonable covenant, *e.g.*, a promise not to open a similar business in the same street, might be valid; thus, an employer is permitted to make a covenant with an employee to prevent the latter from using his knowledge of a confidential clientèle or of his trade secrets, but not to prevent competition generally. The general rules are :—

(*a*) An agreement in *general* restraint of trade is void.

(*b*) An agreement in *partial* restraint of trade, *e.g.*, an agreement not to trade in a certain place, or with certain persons, or in a certain manner, is valid if it is reasonable between the parties and is not injurious to the public.

(*c*) An agreement not to compete with another in any line of business which he may take up, is too wide and is void.

Contracts for the sale of goods are frequently made in which the seller stipulates that the buyer shall have the right to resell the goods only subject to certain conditions, as, for example, a condition as to minimum price; such condition or conditions will usually be upheld by the Courts. In fact, the matter is carried even further, and where a person (Jones) sells good to another (Brown) on condition that Brown shall sell the goods to other persons only under the stipulation that they will not be sold below a stated price by sub-purchasers, then, if Brown fails to make this stipulation when selling the goods, the Courts will uphold the contract and Brown will be liable to Jones for breach.

Contracts made Illegal by Statute.

The following are the chief types of contracts in this class :—

(1) Contracts infringing the *Truck Acts*, *i.e.*, contracts whereby workmen are compelled to take their wages or part of them in goods.

(2) Contracts for the sale of shares in a joint-stock banking company, *unless* the distinctive numbers of the shares are mentioned in the transfer (*Leeman's Act*).

(3) Gaming and wagering contracts. A *wager* is a promise to give something upon the happening of an uncertain event, the consideration being the promise made by the other party to give value should the uncertain event fail to happen. The *Gaming Act*, 1845, makes all such contracts void. The Act of 1892 goes even further and makes irrecoverable all money earned by way of commission on such transactions, and any money lent to enter into the transactions.

Impossibility.

Contracts the performance of which is impossible at the time they are made, are void because of the failure of consideration. In such cases a valid contract has never existed. Impossibility may be of three kinds :—

1. Legal Impossibility, where the performance of the act is prohibited by the law.
2. Absolute Impossibility, where physical laws absolutely prevent performance, *e.g.*, a contract to fly to the moon.
3. Actual Impossibility, where the subject matter of the contract has, unknown to the parties, ceased to exist before the time of entering into the contract.

MISTAKE, MISREPRESENTATION AND FRAUD

To make a valid contract the parties must have a common intention (*consensus ad idem*), so, if the offer or acceptance is induced by mistake, fraud or misrepresentation, the contract may be avoided on the ground that there is no true common intention.

Mistake.

Mistake *of both parties*, if it is of so fundamental a nature as to destroy the *consensus ad idem*, will avoid the contract; but mistake *of one party* will invalidate a contract only if it is fundamental and not due to the negligence of that party.

A Mistake of Law is no defence, for every person is presumed to know the law.

A Mistake of Fact will be sufficient to avoid the contract only in the following cases :—

(1) Where the mistake is as to the *existence or nature of the contract*, and was induced by the fraud or negligence of a third party; *e.g.*, where a blind man is induced by a third party to sign a contract under the assurance that it is a reference, the blind man can escape liability under the contract.

(2) Where there is a mistake as to the *identity of the other party* and that identity is of importance; *e.g.*, Jones

borrows money from Brown, not knowing that Brown is a notorious moneylender and has given a false name—Jones can avoid the contract.

(3) Where there is a mutual mistake as to the *identity of the subject matter* ; *e.g.*, Smith agrees to buy Brown's horse thinking Brown means his white horse ; Brown means his black horse—the contract can be avoided.

(4) Where one party is mistaken as to the *intention of the other* and the other is aware of the mistake ; *e.g.*, Brown offers to sell Smith a picture which Smith believes to be a Turner ; Brown knows that it is not a Turner and knows also that Smith thinks that it is a Turner—Smith can avoid the contract.

In each of these cases the contracts can be avoided, but the liability of the parties is not affected by other mistakes, *e.g.*, mistakes due to negligence or error of judgment of the mistaken party.

Misrepresentation.

Representations are statements made for the purpose of inducing persons to make contracts, and do not necessarily become terms of completed contracts. If they actually form part of the terms of the contract they are either *conditions* or *warranties*, and their breach will entitle injured parties to rescission of the contract or to damages. If they are not terms of the contract, then, if false, they will be called *misrepresentations*, and the remedies of the parties injured will depend on whether the false representations were made innocently (*i.e.*, in honest ignorance of their falsehood), or fraudulently. Damages are not available as a remedy to a person injured by innocent misrepresentation, the appropriate remedy being rescission.

INNOCENT MISREPRESENTATION is an untrue statement of fact made with an honest belief in its truth. Unless it is material and it causes the other party to enter into the contract it does not affect the rights of the parties. As a rule, the victim of innocent misrepresentation cannot claim damages, but he can demand rescission of the contract and a restoration of the *status quo*. Unless he exercises this remedy within a reasonable time, and before the contract has been executed, and in any case if he affirms the contract, or if it is impossible to restore the parties to their former position, he will lose his right to rescission. When the innocent misrepresentation was actually a term or condition of the contract, the aggrieved party can sue for breach of contract.

FRAUDULENT MISREPRESENTATION.—Contracts entered into as a result of fraud are " voidable," but not " void." The party defrauded may either treat the contract as binding and demand fulfilment of the terms which misled him, or sue for damages for loss occasioned by non-fulfilment of those terms. Likewise, he

may repudiate the contract, with or without making a claim for damages. But, if he accepts benefit under the contract after he knows of the fraud, he cannot repudiate the contract, and is left with only a claim for damages.

Contracts "Uberrimae Fidei."

Mere silence as to a material fact will not usually avoid a contract except in the following cases: Contracts of insurance, agency, partnership and for the sale of land. These contracts are contracts *uberrimae fidei* (*i.e.*, of the utmost good faith) and they become voidable if any material fact is concealed.

RIGHTS OF THE PARTIES TO A CONTRACT

Quite briefly, a person who enters into a contract obtains the right to enforce performance of the contract in all its terms; and each party to a contract becomes liable to fulfil his share of the transaction.

The only persons who can enjoy the rights and be subject to the obligations arising from a contract are the actual parties thereto; for privity of contract exists only between the contracting persons and they alone can enforce the contract or take action upon its breach. Thus, if Jones contracts to pay £75 to Brown in consideration of Brown's promise to deliver goods to Smith, Smith cannot enforce Brown's promise for he is not a party to the original contract between Jones and Brown.

DISCHARGE OF A CONTRACT

The respective rights and liabilities of the parties to a contract are not satisfied until the contract is discharged. When this happens the contractual relationship is terminated, and the rights and liabilities of the parties are extinguished. A contract may be discharged by :—

(1) Performance.
(2) Breach.
(3) Agreement.
(4) Lapse of time.
(5) Bankruptcy.
(6) Death.
(7) Merger or Estoppel.
(8) Subsequent Impossibility.

Performance of a Contract.

Performance means fulfilment of the contract in all its terms within the time and in the manner prescribed.

Very commonly contracts are performed by the payment of money. But an agreement to pay a sum of money is not performed by *a mere willingness to pay*: the money must actually be tendered and the tender must be made under the following conditions:—

(1) The money must *actually be produced*, unless its production is dispensed with or prevented.

(2) The tender must be in *full payment and unconditional.*
(3) It must be made either *to the creditor himself* or to his agent.
(4) It must be made in *legal tender currency.*

A debt is not discharged if the debtor makes a valid tender of his debt at the correct place and time and the creditor refuses such a tender ; but if the creditor subsequently brings an action the debtor will have a good defence, and if he pays the amount of the debt into Court he will be awarded his costs in the action.

Payment of a lesser amount in discharge of a greater will not discharge a debt, as no consideration is given for the promise to forgo the balance. But there are certain exceptions to this rule in those cases where :—

(*a*) Payment is made before it is legally due, or by a third party with the consent of the creditor.
(*b*) Payment of a liquidated (*i.e.*, definite) smaller sum is made in discharge of a greater unliquidated amount (*i.e.*, an uncertain sum).
(*c*) Composition is made by a creditor under the Bankruptcy Acts (see Chapter 49).

If the payment of a smaller amount is to operate as a discharge, the thing done or given must differ in some way from that which the recipient is entitled to demand. Tender of something other than money (*e.g.*, a cheque) will operate as full discharge if it is accepted as such.

Conditional Payment.

A creditor need not accept in payment of his debt a negotiable instrument such as a cheque or a bill of exchange. If he does accept a cheque or bill he usually does so *conditionally* on the due payment of the instrument, and his right of action on the debt is suspended only until the instrument is paid or dishonoured. In the latter event his rights are revived, and he can sue his debtor, either on the debt or on the bill.

If a negotiable instrument is remitted by post and is lost. the loss will fall on the party who first makes the post his agent. Usually this is the debtor, but, if in using the post, he acts on the instructions of the creditor, the loss will fall on the latter and the debt will be discharged (see p. 564).

If by agreement between the parties a negotiable instrument, *e.g.*, a bill, is taken in *final discharge* of a debt then the creditor finally loses his original remedy against the debtor, *i.e.*, he loses his remedy on the debt but not on the bill.

Breach of Contract.

Breach of contract occurs where one party fails to perform his duties in accordance with the contract. This operates as a discharge, whereupon the rights under the contract are con-

verted into a right of action. Breach may be by express repudiation or by conduct implying repudiation; it may take place before performance is due, or during performance; it may be either a total or a partial breach, and the remedies of the injured party depend on whether it is total or partial.

In the case of *total breach* the party injured may :—

(*a*) Treat the breach as a discharge, refuse to perform his part, and resist successfully any action by the party committing the first breach; *and*

(*b*) Claim damages; *or*

(*c*) (If he has performed a part of that which is due from him) claim an amount equivalent to the work he has done (*i.e.*, sue on a *quantum meruit*); *or*

(*d*) (In certain cases) claim specific performance, or an injunction.

Should the breach be *partial* only, *i.e.*, should it apply only to a subordinate part of a contract which is divisible, then the contract is not terminated and the injured party can sue only for damages. He must not therefore refuse to perform his side of the contract, but must proceed with the performance. He can, however, sue for the damage caused by the partial breach. Nevertheless, if the breach is of such a nature that the defaulting party clearly intends to avoid the whole of his obligations, then the whole contract can be treated as discharged as in the case of total breach.

Discharge by Agreement.

A contract may be discharged by agreement in any of five ways :—

(*a*) By Accord and Satisfaction.—If one party performs his part, but in return for fresh consideration waives his rights under the contract, there is said to be "accord and satisfaction."

(*b*) By Substitution of a New Agreement for the Old, by alteration of the parties (*i.e.*, novation) or of the terms of the original contract.

(*c*) By Waiver, by the parties mutually waiving their rights before either of them has performed his duties. Waiver by one party is considered sufficient consideration for waiver by the other.

(*d*) Release is similar to waiver, but is one-sided, in that one party waives his rights without any consideration; the release must therefore be under seal to be of any effect.

(*e*) Condition Subsequent.—This occurs when one of the terms of the contract is that the contract shall terminate if certain events do or do not transpire, as the case may be, and that term comes into operation.

Discharge by Lapse of Time.

Actually the only case in which a contract is *discharged* by lapse of time is when there is a term in the contract by which the contract is to be deemed terminated by a lapse of a certain period; but in such circumstances the lapse of the period is in effect a condition subsequent (see above).

More frequently, however, a contract becomes *unenforceable* (still valid, perhaps, but not actionable) by lapse of time. It is said to become "statute-barred" by the provisions of one or other of the three following *Statutes of Limitation* :—

Limitation Act, 1623, which bars all rights of action on a simple contract unless an action is commenced within six years of the time when the cause of action first arose.

The Civil Procedure Act, 1833, by which all actions on specialty contracts are barred after the lapse of twenty years.

The Real Property Limitation Act, 1874.—Rights of action on contracts concerning land are barred after twelve years. Here it should be noted that not only the remedy but also the right itself is extinguished.

Although the periods in each case begin to run from the date when the plaintiff could first have sued, yet part performance, part payment or payment of interest by the person liable will revive the remedy, and the various periods will again begin to run from the date of revival. Similarly, the right of action will be revived by an acknowledgment of the debt in writing from which may reasonably be inferred an intention to pay.

Bankruptcy as a Discharge.

If a party to a contract is adjudicated bankrupt (see Chapter 49), the whole of his assets, rights and liabilities are vested in his trustee, who becomes the only person entitled to carry out the bankrupt's obligations and to enforce his rights, so that the only person who can be proceeded against in respect of the contract is the trustee.

Discharge of a Contract by Death.

A contract (other than one which involves personal service) is not discharged by the death of either party. On the contrary, the rights of the deceased pass to his personal representatives; so that if the deceased had already performed his side of the agreement the representatives will be able to enforce performance by the other party.

Merger and Estoppel.

"Merger" implies the substitution of a higher grade of contract for a lower one. Thus a contract under seal will supresede a simple contract, whilst a judgment by a Court of

Law (called a *contract of record*) will override a deed. At the same time, if judgment is given against, say, the defendant to an action brought on a contract, the judgment will "*estop*" the defendant from proceeding further on the contract.

Subsequent Impossibility.

It has already been pointed out that if a contract (so-called) is impossible of performance at the time it is entered into, it is of no effect. But where performance becomes impossible *after* the contract has been made, the general rule is that the contract is not discharged. There are, however, certain exceptions to this rule, and it may be said that *subsequent* impossibility discharges a contract in the following cases: (*a*) when a change of law makes performance illegal; (*b*) when the death of one of the parties makes performance impossible; (*c*) when performance depends on the existence of a certain person or thing, who or which ceases to exist; (*d*) where the happening of an event is the essence of the contract, and the event fails to happen.

Damages on Breach.

When a contract is discharged by breach, the party injured is entitled to sue the other for damages suffered by reason of his default. The measure of damages which will be awarded him by the Court depends entirely on the particular circumstances. Very often one of the terms of the contract is that a definite sum shall be paid by way of damages for breach. An amount so fixed may be either *liquidated damages, i.e.*, a reasonably computed compensation for loss, or a *penalty, i.e.*, an amount which is more in the nature of a fine and has been fixed without any definite attempt to value the probable damages—such an amount will be regarded warily by the Courts who will enforce only so much of it as appears to be reasonable having regard to all relevant facts.

Where no provision for damages has been made in the terms of the contract it will devolve upon the Court to assess the amount of damages suffered. The Court will endeavour, so far as is possible, to place the plaintiff in the same pecuniary position as if the contract had been performed, but will award him damages only for such loss as was incurred directly and naturally as a result of the breach. But if the breach has resulted in some special loss which, although not contemplated by the parties when the contract was made, is yet a natural result of the breach, *and* it is shown that the defendant was aware of the *special* circumstances out of which the loss arose, then the plaintiff will be awarded *special* damages to cover this extra loss.

In some cases, where the loss could not be covered by the award of damages, the Court may grant what is known as an order for "*specific performance*," *i.e.*, the defendant will be ordered to fulfil the contract, but such an order will be made

strictly at the discretion of the Court. Yet another remedy open to an injured party under a contract is to apply to the Court for an "*injunction*" *either* restraining the other party from doing certain actions *or* compelling him to perform some specified action, as the case may require.

THE LAW OF AGENCY

Agency is the relation existing between two parties for the purpose of enabling one (the agent) to make contracts on behalf of the other (the principal). The agent's duty is to bring the principal into contractual relationship with third parties. No special form of appointment of an agent is required unless he is to contract *by deed*, in which case he must be appointed by deed; otherwise, with few exceptions, the appointment may be made orally, or in writing, or simply by implication. Further, merely by ratifying the acts of a person who has acted as an agent without being so appointed, a principal may make that person his agent. In view of the provisions of the *Statute of Frauds* (see page 243), the appointment of an agent whose agency is to last for more than a year must be evidenced by *writing*.

Types of Agent.

There are three principal types of agent. An agent who has unrestricted authority to act for his principal in all matters is known as a *Universal* agent; such an agent is rarely met with, and is usually appointed by power of attorney. More common is the *General* agent, who has general authority to act in all matters appertaining to a certain business; thus the manager of a shop usually has authority to bind his principal in all matters connected with the shop. A still more common type is the *Special* agent, who is given authority to act on behalf of his principal for one specific purpose. A special kind of agent often met with in commerce is the *del credere* agent, who is so called because, in addition to his functions as agent pure and simple, he undertakes to answer for the credit of any third party with whom he brings his principal into contractual relationship. He thus indemnifies his principal against losses caused by the default of any customer introduced by him.

Duties of an Agent.

The duties of an agent are :—

(*a*) To perform his duties *in person*.
(*b*) To carry out his work with normal skill and according to the terms of his agency.
(*c*) To inform his principal of all matters affecting the agency.
(*d*) To keep proper accounts and to account to his principal for all moneys received on his behalf.

Further, he must not accept bribes nor use his position as agent to make secret profits or to accept secret commissions.

Rights of an Agent.

Needless to say, an agent does not undertake these duties for nothing; on the contrary, he obtains certain rights in return for his assumption of responsibility. His chief right is, of course, to be remunerated for his work. Normally the terms of remuneration are agreed upon when the agency is entered into, but when no express agreement has been made, the agent is entitled to such remuneration as is reasonable in the circumstances. Beyond this right he is entitled to be indemnified by his principal for any liabilities he may incur in the course of performing his duties as an agent. The right of indemnity covers not only the contractual liabilities which he incurs, but also any liability to third parties arising out of wrongful acts on his part, provided they are done innocently and in the course of his duties and are not in themselves illegal.

Liabilities to Third Parties.

As a general rule, an agent who enters into a contract with a third party on behalf of a principal does not become personally liable to the third party for fulfilment of the contract. But in certain cases the agent does assume personal liability: for example, an agent in this country, who contracts on behalf of a merchant resident abroad, usually becomes personally responsible. Other cases are (*a*) where an agent fails to bring to the attention of the third party the fact that he is contracting as an agent, and (*b*) where the agent expressly undertakes to be personally liable.

This personal liability of an agent is purely contractual in nature, but, in addition, an agent may be mulcted in damages for *breach of warranty of authority* if he leads a third party to believe that he is clothed with a more extensive authority than he, in fact, possesses; for in such a case his principal is not bound, and the third party is left with no remedy other than against the agent. This liability of the agent may be incurred without any suspicion of bad faith or negligence on his part. It has already been pointed out that an agent may become liable to a third party if he commits any wrong-doing, such as wrongful interference with the property of another; this liability, also, may arise even though the agent has acted throughout in good faith and without negligence.

Types of Commercial Agents.

Various kinds of agents are met with in commerce, and of these the following are the chief:—

PARTNER.—A partner is a general agent for his co-partners

and can bind them by any act done within the scope of the business of the partnership. He has, however, no *implied* authority to bind his partners by deed.

COMMISSION AGENT.—This term is usually applied to an agent who acts for a foreign principal for an agreed commission; it may, however, be used to designate any agent who works on commission.

BROKER.—A broker is an agent who is employed to negotiate contracts for a remuneration called *brokerage, e.g.,* a stock broker or a cotton broker. When a bargain is completed, the broker represents both parties, and his bought and sold notes constitute the bargain. He does not act in his own name, and does not have actual possession of goods bought or sold through his instrumentality, neither does he become personally liable.

FACTOR.—Such an agent is known also as a "*mercantile agent,*" legally defined as :—

> "*One having, in the customary course of his business as such agent, authority either to sell goods or to consign goods for the purpose of sale, or to buy goods, or to raise money on the security of goods.*" (*Factors Act,* 1889, Section 1.)

A factor—which term includes commission agents, produce dealers, second-hand dealers and others who receive goods for sale—can sell goods in his own name, pledge goods in his possession, give credit, receive payments, give receipts and warrant the goods.

INSURANCE BROKER.—As the name implies, this is an agent who effects contracts of insurance. His position is peculiar in connection with marine insurance, for unless some other agreement is made, he is responsible to the insurer for the premium, whether or not he receives it from the insured : he has, however, a lien on the policy for the premium and his charges.

THE SALE OF GOODS

The law relating to the sale of goods in this country has been codified and is now governed by the *Sale of Goods Act,* 1893.

Meaning of the Term "Goods."

Some understanding as to the meaning of the word "*goods*" is essential to a study of the special types of contracts relating thereto, for very frequently such contracts refer to goods in different senses. The term includes all personal chattels other than *choses* (*i.e.,* things) *in action,* by which latter phrase is meant all claims and rights enforceable by law. "Goods," then, include all moveable, material things (with the exception of money), such as manufactured articles, sheep, poultry, minerals and crops, but not debts, promissory notes, shares, etc., which are merely *legal rights* and not goods.

Future goods are those which at the time when the contract is made have yet to be manufactured or acquired by the seller. *Existing* goods are owned or possessed by the seller at the time of the contract of sale. *Specific* goods are those identified and agreed upon at the time when the contract of sale is made. On the other hand, goods which are referred to by the parties in general terms and are not specifically identified are known as *unascertained* goods.

Contracts of Sale.

A contract of sale is one under which the property in goods is transferred from a seller to a buyer. By Section 1 of the *Sale of Goods Act*, 1893, a contract of sale is defined as one "*whereby the seller transfers, or agrees to transfer, the property in goods to the buyer in return for a money consideration called the price.*" Thus, the definition of a contract of sale includes not only an actual sale but also an *agreement to sell.* An agreement to sell is one whereby the transfer of the property in the goods is to take place at some future time, or subject to some condition thereafter to be fulfilled; it becomes a sale only after the lapse of the time fixed or on fulfilment of the conditions. This distinction is of considerable importance.

Form of Contract.

Mention was made earlier in the chapter of the fact that certain classes of contract were unenforceable unless evidenced by writing. Contracts for the sale of goods are of this type, and are governed in this respect by Section 4 of the *Sale of Goods Act*, 1893, which enacts that—

> "A contract for the sale of any goods of the value of £10 or upwards shall not be enforceable by action unless the buyer shall accept part of the goods so sold *and* actually receive the same, *or* give something in earnest to bind the contract, *or* in part payment, *or* unless some note or memorandum in writing of the contract be made and signed by the party to be charged or his agent in that behalf."

It is not necessary for the note or memorandum to be in any special form; sufficient evidence of the contract is all that is required, and any note or letter disclosing the names of the parties, the consideration and the terms of the contract, and signed by the party to be charged, is sufficient to render the contract enforceable.

By "*Acceptance*" the Act does not necessarily mean approval of the goods, for sufficient acceptance occurs when the buyer "does any act in relation to the goods which recognises a pre-existing contract of sale, whether there be an actual acceptance in performance of the contract or not." The slightest act

of interference with the goods by the buyer may amount to acceptance.

It must be understood that *any one* of the three forms of evidence is sufficient to satisfy the section and that the absence of any such evidence does not invalidate the contract; it simply prevents an action on it.

Consideration.

Like all other simple contracts, contracts for the sale of goods can be of no legal effect unless they are made for a good and valuable consideration. The latter must consist of money—either wholly or in part—for if it does not, the transaction is not one of sale but of *exchange* or *barter*, and as such is not subject to the rules of the *Sales of Goods Act.* The monetary consideration in a contract of sale is known as the *price* of the goods and is usually fixed by the terms of the contract. Sometimes, however, the contract contains an arrangement whereby it is agreed that the price shall be fixed by "valuation" by some named third party. In these circumstances, should the third party fail to make the valuation (unless he is prevented by one of the parties to the contract), and in any case where no provisions as to price are made in the contract, the buyer must pay a reasonable price for the goods.

Title to Goods.

There is a general rule of law that, when one person enters into a contract to buy goods from another and later it turns out that the seller had no right to the goods, then the buyer will get no title to those goods. The legal maxim is that no one can give that which he has not got—*nemo dat quod non habet*, and the legal owner of goods can follow them up in the hands of someone not entitled to them and demand their restitution. The principal exception to this rule arises when goods are sold in "*market overt.*"

Market Overt.

The term "Market Overt" (*i.e.*, open market) is applied only to recognised markets throughout the country, and to any shop in the City of London in respect of the goods usually sold in that shop. Market overt is held every day (except Sunday) in London, but in other places only on the specific days set apart as market days.

Where goods are purchased in market overt, according to the customs of the market, the buyer obtains a title good against the whole world, even though the seller had no title or a defective title, except: (1) Where the goods belong to the Crown; (2) Where the goods have been stolen, and the true owner prosecutes the thief to conviction; (3) In the case of a

sale of horses ; (4) Where the buyer knows that the goods do not belong to the seller.

In order to acquire his title the buyer must act in perfect good faith and must be ignorant of any defect in the seller's title. Further, the transaction must begin and finish in open market in full view of the public, between sunrise and sunset.

The real meaning of the above will be clarified by the following illustrations of transactions which are *not* sales in market overt :—

(1) A sale in a room above or behind the shop.
(2) A sale behind a curtain.
(3) A sale *to* a shopkeeper in his shop.
(4) A sale of goods not usually dealt in, *e.g.*, the sale of a watch by a confectioner.

Further Protection for the Buyer.

A buyer of goods which are subject to some defect of title may obtain protection in certain other circumstances. For instance, when a person buys goods from another, whether in market overt or otherwise, and it afterwards transpires that the goods did not in truth belong to the seller, the buyer may nevertheless retain the goods if he can prove that the goods were obtained by the vendor by means which did not amount to theft. Thus, if the goods were originally obtained by false pretences, the true owner will be unable to recover them.

Another instance is where a person has sold goods but remains (with the purchaser's consent) in possession of the goods or of the documents of title, which he uses fraudulently for the purpose of inducing another person innocently to part with money in consideration of a bogus sale. In such a case the second purchaser will be entitled to the goods, since the first purchaser is to blame for having left the goods or the documents at the disposition of the seller.

On the other hand, where a person has purchased or agreed to purchase goods and has obtained from the seller the goods or the documents of title which he uses fraudulently to make a further sale to an innocent third party, the latter will obtain a good title to the goods even though the first purchaser fails to fulfil his contract.

Lastly, there must be considered the *Factors Act*, 1889, which gives a peculiar validity to certain contracts made by mercantile agents, and in doing so overrides the usual rule that agents can bind their principals only when acting within the scope of their authority. To protect people who deal in good faith with mercantile agents the Act provides that—

"Where a mercantile agent is *with the consent of the owner* in possession of goods or of the documents of title to goods, any sale, pledge or other disposition of the goods, made by him when acting in the ordinary course of business of a mercantile agent, shall, subject to

the provisions of this Act, be as valid as if he were expressly authorised by the owner of the goods to make the same, provided that the person taking under the disposition acts in good faith, and has not at the time of the disposition noticed that the person making the disposition has not the authority to make the same."

In brief, people dealing in perfect good faith with a mercantile agent may assume that he is acting within the scope of his authority, and such people will not suffer loss on account of that assumption.

Transfer of Property in Goods.

PROPERTY in goods is the ownership of them and must be distinguished from POSSESSION, which is only a limited right conferring a power to deal with the goods in a certain way. In view of this distinction, it is important further to distinguish exactly *when* the property in goods passes from seller to buyer, for, subject to any agreement to the contrary, goods remain at the risk of the seller until the property in them has been transferred to the buyer, after which time the risk lies on the buyer. But if the transfer of property is delayed through the default of one party, then the risk lies on the party at fault. The time of transfer of property in goods is fixed (subject to other agreement) by the following rules :—

(1) *If the contract is unconditional* and relates to *specific goods* ready for delivery, the property passes immediately the contract is made, even though actual delivery or payment is deferred.

(2) *If the goods are to be measured or weighed* by the seller, or if some other condition is to be fulfilled by him in order to put the goods into a deliverable state, the property does not pass until the act has been performed by the seller and notice has been given to the buyer.

(3) *If the goods are sold on approval,* the property passes when, by word or deed, the buyer signifies his approval and adoption of the transaction. Retention of the goods without giving notice of rejection within a reasonable time will amount to approval.

(4) *If unascertained goods* are sold by description the property passes when goods of that description in deliverable condition are unconditionally appropriated to the contract by either party with the express or implied consent of the other party.

(5) *If the seller reserves the right of disposal* until certain conditions have been fulfilled the property does not pass until fulfilment of those conditions.

Conditions and Warranties.

In making an offer of sale, the offeror may attach any conditions he pleases, but whether his terms are *conditions* or *warranties* depends upon the construction of the contract. The matter is of importance because breach of a *condition* by one party gives the other the right to repudiate the contract *and* to sue for damages, whilst breach of a *warranty* carries the right to damages only. A condition is, therefore, an essential and

material part of the contract. A warranty, on the other hand, is some *collateral* stipulation; and because of the difference great care must be exercised in framing orders and quotations. The *Sale of Goods Act* defines a warranty as—

> "An agreement with reference to goods which are the subject of a contract of sale, but collateral to the main purpose of such contract."

A stipulation in a contract may be a condition, even if it is termed a warranty, but a stipulation as to time of payment is never a condition, except when that is the obvious intention of the parties.

Apart from warranties and conditions which are "express" (*i.e.*, expressly stated in the contract) certain stipulations are now "implied" by law, unless they are expressly excluded from the contract, or unless the circumstances show a different intention. At common law there is no *implied* condition or warranty attaching to any contract of sale, and this principle is expressed in the maxim "*caveat emptor*"—let the buyer beware—but this somewhat harsh rule has been modified by statute and by custom, as indicated below.

The chief condition that is implied in a contract of sale is that the seller has, or will have, *a right to sell.* Other conditions and warranties that are implied by law are described in the following paragraphs:—

Sale of Goods by Description.—There is an implied condition that any goods sold by description shall correspond with the description. There is also an implied condition that the goods are of a merchantable quality; but if the buyer examines them before entering the contract, there is no implied condition as regards defects which the examination should have revealed.

Quality and Fitness.—If the buyer, when purchasing goods, makes known to the seller the purpose for which they are required so as to show that the buyer relies on the seller's skill and judgment, and the goods are of a description in which the seller usually deals, there is an implied condition that the goods shall be reasonably fit for the purpose. But there is no implied condition that goods sold under a patent or trade name shall be fit for any particular purpose.

Sale by Sample.—Here there are three implied conditions: (1) that the bulk shall correspond with the sample in quality; (2) that the buyer shall have reasonable opportunity for comparing the bulk with the sample before acceptance; (3) that the goods are free from any defect which would render them unmerchantable but which would not be apparent on reasonable examination of the sample.

Goods sold by description *and* sample must correspond with

both; it is not sufficient for the bulk to correspond with the sample or with the description *only*.

Many warranties are implied in contracts for the sale of goods by virtue of special Acts of Parliament and by the custom of particular trades. It is beyond the scope of this book to detail these warranties, and in any case they are matters which concern particular trades only. There is, however, one general warranty implied in all contracts of sale, and that is that the *buyer shall have and enjoy quiet possession of the goods*; that is to say, that he shall not have to defend his title to the goods in legal proceedings.

Rights of Seller.

As against the buyer, the seller has two primary rights: (*a*) he can require the buyer to accept the goods; (*b*) he can require the buyer to pay for the goods. In addition to these rights, a seller who has not received payment (an *unpaid seller*) has certain additional remedies.

A seller of goods is deemed to be *unpaid*—

(1) When the whole of the price has not been paid or tendered to him.

(2) When he has been conditionally paid with a bill of exchange, a cheque or some other negotiable instrument and that instrument has been dishonoured.

Rights of the Seller against the Goods.

We have already noticed the distinction between "property" and "possession" and, with this distinction in mind, the rights of the unpaid seller should be easily understood.

(1) WHERE THE PROPERTY HAS PASSED TO THE BUYER.

(*a*) *The Possession remains with the Seller.* In this case the unpaid seller has what is called a *seller's lien, i.e.*, although the goods no longer belong to him, he can retain them until the buyer fulfils the agreed conditions with regard to payment. The lien granted by law to an unpaid seller is a recognition of his right to act, as against his debtor, *as if* he still retained the ownership. The conditions of a lien are, therefore, that the property *must* have passed to the buyer, and the possession *must not* have passed to him, and the buyer must have defaulted in the manner already described.

(*b*) *The Possession has passed from the Seller.* If possession has passed to the buyer, the unpaid seller has no remedy against the goods, for they are not his, and he has given up all control over them.

But if the possession has merely been given to a third party—*e.g.*, a common carrier—for the purpose of making delivery to

the buyer, then the seller can countermand his instructions to the carrier or other intermediary, take possession of the goods again, and thus recover his right of lien. This right of taking back goods from a carrier is called the right of "*stoppage in transitu.*" It depends on the conditions that the *carrier must hold the goods not as the buyer's agent* but either as the seller's agent or as an independent contractor, and that the *buyer must be insolvent.* The right is defeated if the buyer has had documents of title to the goods (*e.g.*, the bills of lading covering a shipment) and has negotiated them for value.

It must be remembered that, although an unpaid seller may be rightly exercising his lien on goods in the way described, he is still not the owner of them. Ownership and lien are incompatible. The sale of the goods to the defaulting buyer is an ccomplished fact, and it has made the buyer the owner of the goods. It follows that the seller cannot dispose of the goods as he pleases, and, except in special circumstances, he cannot re-sell them. These circumstances are as follows :—

(*a*) The goods are perishable and must be sold to avoid loss ; *or*

(*b*) The seller gives notice to the buyer that he intends to re-sell, and the buyer does not within a reasonable time pay or tender the price ; *or*

(*c*) The seller has in the original contract reserved the right to re-sell if the buyer should default.

In giving a title to a new buyer by re-sale, the seller rescinds the original sale to the defaulting buyer, but can still bring an action for damages against him if the re-sale does not yield as good a price as the original buyer was liable to pay.

The seller, cannot, of course, normally exercise a lien over goods during an agreed period of credit, as the buyer cannot default until that period has expired ; but if during any such period a buyer becomes insolvent, the seller's lien is exercisable at once.

(2) WHERE THE PROPERTY HAS NOT PASSED TO THE BUYER.

In this case the seller does not require a lien to enable him to retain his goods and deal with them as he pleases in the event of the buyer's default. He can stop in transit or re-sell as he thinks fit, subject to any special term in the original contract of sale which may restrict his freedom. If he does not act justifiably, the buyer's only remedy is an action for damages for breach of contract.

Remedies of the Seller against the Buyer.

If the buyer neglects or refuses to pay for the goods when he has had them, the seller may maintain an action against him for the price. If the price is payable on a certain day, irrespective

of delivery, and is not paid in due course, the seller may maintain an action for the price whether the possession has passed or not.

When the buyer neglects or refuses to accept the goods at the agreed time and place, the seller's remedy is an action for damages for non-acceptance. The measure of damages in this case is the estimated loss directly and naturally resulting, in the ordinary course of business, from the buyer's breach of contract. Where there is an available market, then the damages will be the difference between the available market price and the contract price ; but if there is no available market then the amount will be the actual loss suffered.

Rights of the Buyer.

The first right of the buyer is to have delivery of the goods. *Delivery* signifies transfer of possession of the goods, but it is not necessary that the goods should be actually moved, for delivery may be *actual* or *constructive,* which means that the transfer of control over goods, as, for example, the transfer of the key to the warehouse in which they lie, is sufficient. Subject to agreement, the *place* where delivery is to be made is the business house of the seller, if he has one, and if not, his private residence. But if both parties know that the goods are in some other place, then that becomes the place of delivery.

Besides being entitled to delivery of the goods, the buyer is also entitled to have any conditions or warranties observed by the seller, whether they are express or implied. Moreover, he is entitled to have delivered to him or made available to him at the agreed time and place the stipulated quantity of goods which he has contracted to buy. In this connection Section 30 of the *Sale of Goods Act* provides as follows :—

(1) Where the seller delivers to the buyer a quantity of goods less than he contracted to sell, the buyer may reject them, but if the buyer accepts the goods so delivered he must pay for them at the contract rate.

(2) Where the seller delivers to the buyer a quantity of goods larger than he contracted to sell, the buyer may accept the goods included in the contract and reject the rest or he may reject the whole. If the buyer accepts the whole of the goods so delivered he must pay for them at the contract rate.

(3) Where the seller delivers to the buyer the goods he contracted to sell mixed with goods of a different description not included in the contract, the buyer may accept the goods which are in accordance with the contract and reject the rest or he may reject the whole.

The above provisions are subject to any special agreement or course of dealing between the parties and also to any usage of trade. Consequently, it is essential for a trader to know the customs of his particular trade, since they may justify the delivery of goods slightly different in quality and quantity from those ordered.

Remedies of the Buyer.

In the event of the seller wrongfully neglecting or refusing to deliver the goods, the buyer may sue him for damages for non-delivery. Where the goods are of peculiar value or of great rarity, the Court may, if it thinks fit, accede to an application by the buyer for *specific performance*; in other words, it may order the delivery of the actual goods, instead of awarding damages.

The remedies open to a buyer of goods when any condition or warranty (express or implied) in his contract has not been fulfilled by the seller have already been mentioned (see *ante*, page 248). Briefly,

(*a*) A Breach of Condition gives the buyer a right to rescind the whole contract or to sue for damages or both.

(*b*) A Breach of Warranty gives no right to rescind the contract, but the buyer may sue for damages.

QUESTIONS BEARING ON CHAPTER 17

1. What is meant by the statement that a debt is Statute barred? How may the operation of the Statute of Limitations be delayed? (*S.A.A., Inter.*)

2. On behalf of your firm, A.B., you call on C.D. to collect an account of £26 10*s*. 0*d*. The account is subject to a discount of 2½ per cent. C.D. offer you £19 4*s*. 0*d*. in settlement. They have deducted an amount of £6 16*s*. 0*d*. as an allowance, which allowance your firm disputes. Will you take the £19 4*s*. 0*d*. or refuse it? Give your reasons for your decision in either case. Show the form of receipt you would give if you decide to take the amount offered. (*London Chamber of Commerce, Certif.*)

3. What do you understand by the expression "in restraint of trade" in connection with a contract? Give an example involving a condition in restraint of trade, and show how it might invalidate the contract. (*C.A., Inter.*)

4. J. Jones owes you £30, and you have handed the matter over to your solicitor. It is rather a doubtful account, and J. Jones tenders you a cheque for £15 10*s*. after deducting 5 per cent. discount and £3 allowance for carriage (an allowance which you dispute). You decide to take the cheque. Draft the form of receipt you would give Jones. (*C.A., Inter.*)

5. What is the difference between Common Law and Statute Law? In what section of the Courts of Justice would you expect to find the cases which primarily concern the business man?

6. Why are many agreements made in daily life unenforceable at law?

7. An advertiser offers a reward of £1000 to anyone who having used a certain remedy in a prescribed fashion does not obtain a certain benefit

therefrom. If a person, Brown, purchases the remedy and, having used it exactly as directed, obtains no benefit therefrom, has Brown any action against the advertiser and if so why? Explain the rule of law which governs the matter.

8. Brown a retailer writes to a wholesaler Jones asking whether he can supply certain goods. Jones replies offering the goods at a certain price and Brown replies by post accepting the goods at the price stated, but the letter never reaches Jones. Is there a definite contract?

9. Give a list of important business contracts which must be made: (*a*) by deed, and (*b*) in writing.

10. What risks does a business man run in contracting to supply goods: (*a*) to an infant, and (*b*) to a married woman?

11. Why is it dangerous to enter into a contract with a person who is (*a*) drunk, or (*b*) insane?

12. A chemist employs an assistant under an agreement that the latter will not open a competing shop in the same county. Do you think that such an agreement can be legally upheld? Give reasons for your answer.

13. Briefly explain the effect of a mistake on the validity of a contract.

14. Jones owes Brown £100, but when he offers to pay it in £1 notes Brown refuses and asks for a cheque. What is the position in regard to the debt?

15. Would the position in the last question have been different if Jones had tendered a cheque drawn by himself?

16. In what circumstances are contracts discharged by lapse of time?

17. What are the duties of an agent and what are an agent's rights if he properly performs those duties?

18. What is a mercantile agent, and in what way, if any, does he differ from a broker?

19. Explain the rules which determine the time when the property in goods passes from a seller to a buyer.

20. What are the implied conditions which apply to a sale of goods by sample?

21. Jones sells £100 worth of goods to Brown but retains the goods in his possession. What are Jones's rights if Brown does not pay the amount due on the agreed date? Would the position be different if the goods were in course of transit from Jones to Brown?

22. What are the requisite formalities in the case of a sale of goods of the value of £10 or upwards? (*London Chamber of Commerce, Higher Certif.*)

23. Contracts for the sale of goods are frequently governed by the terms "Conditions" and "Warranties." Define these, and give an example of each. (*C.A., Inter.*)

24. Explain the term "Market Overt." (*S.A.A., Inter.*)

CHAPTER 18

BUSINESS GOODWILL

THE term "Business Goodwill" is rather difficult to define because it has different meanings in different businesses. Briefly, it is the benefit or advantage attaching to an established business by reason of (*a*) the good name or reputation which the goods sold by the business have acquired, or (*b*) the personality of the proprietor or other person connected with the business, or (*c*) the large business connection the concern has acquired. There are at least five important aspects of goodwill :—

(1) NAME.—In many cases the goodwill of a business is built up solely on the name of the goods sold. This is particularly true of cigarettes, chocolates and other products sold under a trade name or mark, *e.g.*, "Gold Flake" cigarettes ; "Bovril" ; "Sunlight" soap. Goods in this category have for years been advertised and consumed to such an extent that the name of the product is familiar to all, and many purchasers ask for that particular product merely because the name is so familiar, and because they have not tried any other product of a similar kind.

(2) REPUTATION.—Many businesses which have been established for some years have earned a reputation for honesty and good business. Such a reputation, based on straightforward and tactful methods, creates a type of goodwill which is frequently very valuable.

(3) PERSONALITY.—The character and business capacity of traders vary greatly. One business man, who has the power to attract custom by his very presence, or by his business-like methods, may, other things being equal, build up a much larger and more profitable business than one who lacks these essentials. The former will make larger profits than the latter, and it is the aggregate of these excess profits over a number of years which determines the value of the goodwill.

(1), (2), and (3) above are types of "personal" goodwill.

(4) CONNECTION.—The value of goodwill arising from business connection is frequently a matter of the situation of the business premises. It is a type of "local" goodwill, arising where the business is so situated as to "catch the eye," and consequently to attract custom, and also in cases in which the business premises occupy a position convenient to a large or wealthy group of customers.

(5) Monopoly.—Goodwill arises also in the case of goods sold under a patent or copyright or monopoly, for in such cases the business connection of the patentee or proprietor arises mainly as a result of the fact that no other person can make or deal in that particular commodity. There is only one source of supply, and the profits accruing are partially due to goodwill.

Of a similar nature to the goodwill of the patentee and monopolist is that of the *pioneer*, the man who first realises the possibilities of an enterprise, *e.g.*, Henry Ford and the light family car.

By getting first in the field the pioneer is able to establish his business firmly and create a good connection, so that when other competitors enter the field it is much easier for the pioneer to hold his business connection than it is for the new-comers to seize it. The advantages arising from this connection give him greater profits, or super-profits, which have to be evaluated as goodwill in any estimate of the worth of the business.

Whatever the reason for goodwill, it will not be of any great value unless the goods or services are of good quality. In some cases, quality of itself may create goodwill. Speaking generally, British goods have a world-wide reputation for good quality, and even in zones where such goods are priced higher than foreign goods of a similar character, the British goods are often preferred, thus creating for the makers a type of goodwill not enjoyed by their foreign competitors. Similarly, a retail draper may acquire goodwill as a result of his reputation for selling products of better quality than those of a competitor. Quality applies also to services, as in the case of doctors who build up large connections as a result of the skill and attention with which they attend their patients. But a purely personal goodwill of this kind is, of course, far less realisable in terms of money than the other forms of material goodwill to which reference has been made; in fact, personal goodwill usually disappears entirely with the death or disappearance from the business of the person concerned.

In the words of Lord Lindley: "The term 'goodwill' can hardly be said to have any precise significance. It is generally used to denote the benefit arising from connection and reputation, and its value is what can be got for the chance of being able to keep that connection and improve it. Upon the sale of an established business its goodwill has a marketable value, whether the business is that of a professional man or of any other person. But it is plain that goodwill has no meaning except in connection with a continuing business; and the value of the goodwill of any business to a purchaser depends, in some cases entirely, and in all very much, on the absence of competition on the part of those by whom the business has been previously carried on."

The Transfer of Goodwill.

When a business is sold, the goodwill passes with the other assets to the purchaser, provided there is no agreement to the contrary in the contract of sale. Usually there is a clause in the contract of sale whereby the transferor or vendor agrees not to compete with the transferee or purchaser in such a way as to detract from the value of the goodwill of the business. This is very necessary. If a well-known chocolate manufacturer, for example, sold his business, and immediately afterwards recommenced the manufacture of similar goods and used his own name to attract custom, the purchaser would have paid for goodwill which he would not have acquired fully.

In the absence of any special agreement between the buyer and seller of a business, the legal position with regard to the sale of goodwill may be summed up as follows :—

(1) Only that person who buys the goodwill is entitled to represent himself as continuing or succeeding to the business of the vendor.

(2) The transferor of the goodwill may, if he wishes, set up again in a similar business in competition with the transferee, but in doing so he must not in any way represent himself as carrying on the old business.

(3) The seller of the goodwill is entitled to advertise his new business publicly, but he may not solicit the customers of the old firm, either in person or by circular.

In order to overcome the difficulties arising out of the above legal restrictions, express agreements regarding competition are usually made between the parties. A common form of restrictive covenant is one where the transferor promises "not to carry on a similar type of business within a radius of, say, five miles of the old headquarters, for a period of, say, five years." Such an agreement fixes, once and for all, the limits of possible competition, but care must be taken to see that an agreement not to compete does not infringe the doctrine of "Restraint of Trade" for if the agreement is too wide to be enforceable at law, the transferor will not be bound thereby (see Chapter 17).

Partnership Goodwill.

The goodwill of a business carried on by a partnership is very often of considerable value and it is necessary to know to whom it belongs and by whom it may be transferred. Very often when a new partner enters an established firm he is required to contribute, in addition to his share of the capital, a "premium" which represents, in effect, his share towards the goodwill of the firm. This is necessary because the firm's goodwill is part of the partnership assets, and belongs to the individual partners in the proportion in which they share

profits, although it may not appear in the books of account. If, therefore, no premium were exacted, and dissolution of the firm became necessary for any reason, the new partner would be entitled to a share of the goodwill without having paid anything for it.

In some cases, special arrangements are made as to goodwill. Thus, it may be arranged that the goodwill shall belong to a certain partner or to some only of the partners. The usual agreement is that if the business is sold, the goodwill shall be sold as part of the business and the proceeds brought into the general assets, and this is the position in all cases where no agreement has been drawn up. Generally, when a dissolution occurs, mutual arrangements are made whereby the remaining partners buy out the shares of the others in the business and carry it on themselves.

Valuation of Goodwill.

When goodwill forms the subject of a contract of sale, it is sometimes very difficult for the parties to come to an agreement as to a fair price to be paid. In some trades rules of thumb are employed and complicated calculations are avoided. Thus, in drapery and grocery businesses, goodwill is often calculated on yearly sales, the basis being either the value of the sales or the quantities handled during, say, the two preceding years. In like manner, the goodwill of a dairy may be calculated on the quantities of milk sold, and that of a public-house on the quantity of liquor sold during an agreed period, either one, two, or three years, as the case may be.

The Super-Profits Method.—But none of these methods is really satisfactory. The only scientific method of computation is that based on the theory of super-profits.

This theory regards business profits as being composed of four constituents: (1) Proprietor's remuneration, which he might be regarded as capable of earning if employed in a similar business in a managerial capacity; (2) Interest on the capital invested in the business at the rate which could have been obtained by investing the capital in gilt-edged securities (say) 5 per cent.; (3) Additional interest on the capital invested, having regard to the degree of risk involved in the business in question; (4) Super-profits, which are regarded as being attributable to the goodwill of the business.

Unless, therefore, the profits are sufficient to cover (1), (2) and (3) above, goodwill cannot be regarded as existing.

Suppose a business has earned the following profits during the last five years in order: £3000, £3500, £3500, £3500, £4000; that its capital (the excess of assets over liabilities) is £20,000; that the profits given above are the gross profits before making allowance for the proprietor's salary, which is computed at £1000 per annum; and that the business is of

such a type that an investor would expect to receive a return of 10 per cent. per annum on his capital.

In order to arrive at the value of goodwill, we proceed as follows :—

		£
Profit in 1st year		3,000
„ 2nd „		3,500
„ 3rd „		3,500
„ 4th „		3,500
„ 5th „		4,000
		5)17,500
The average yearly profit is . . .		£3,500
From this must be deducted :—		
	£	
The computed annual salary .	1000	
Interest at the normal rate for this type of business (10 per cent.) on the amount of capital invested therein (£20,000) .	2000	3,000
Then the average annual super-profit is		£500

Having arrived at the average annual super-profits, it is customary to calculate goodwill as being equal to a certain number of years' purchase of these profits. The number of years taken will vary according to the type of business, *e.g.*, in the case of a doctor's practice, where a considerable proportion of the goodwill is attributable to the personality of the doctor, the number of years will be less than in the case of a grocery and off-licence business situated at a street corner in a working-class neighbourhood, where practically the whole of the goodwill may attach to the site. Thus, if the average annual super-profits are £500, the value of goodwill calculated on the basis of ten years' purchase of these profits is £5000.

THE ANNUITY METHOD.—Modern accounting practice, however, tends to regard even this method as too arbitrary. A more scientific method is to regard the value of the goodwill of a business as the value to the purchaser, at the time of purchase, of the right to receive the ascertained amount of super-profits each year for an agreed number of years. Obviously the value to the purchaser *now* of the right to receive a certain amount of super-profit two years ahead is less than the value of the right to receive the same amount one year ahead; the present value of the right to receive the same amount three years ahead is worth even less, and so on. The rate of interest employed in finding the present value of these future annuities of super-profits is the same as that used in arriving at the super-profits (in above example 10 per cent.).

The price to be paid for the goodwill is then calculated in the following manner. Assuming that the rate of interest

employed is 10 per cent. and that the purchaser has agreed to purchase the right to £500 super-profits each year for the next five years, it is found from annuity tables that the present value of the right to receive £1 per annum for the next five years, discounted at the rate of 10 per cent. per annum, is £3·79, and this figure, multiplied by 500, equals £1895, which is the ascertained value of the goodwill.

THE CAPITALISATION BASIS.—An alternative method of ascertaining the value of goodwill is to capitalise the average annual profits (after deduction of the remuneration of management), on the basis of the normal rate of interest expected to be received in that particular type of business. Reverting again to our example, we see that at 10 per cent. per annum the amount of £2500, *i.e.*, £3500 (average profits) less £1000 annual salary, would be earned by a capital of $\frac{£2500 \times 100}{10}$ $=£25,000$. On a capitalisation basis, therefore, the value of the business as a going concern is £25,000, although the capital is only £20,000. Clearly, then, the remaining £5000 is equivalent to goodwill, and the balance sheet before and after the valuation of goodwill might appear thus :—

Balance Sheet prior to Valuation of Goodwill.

LIABILITIES.	£	ASSETS.	£
Capital . . .	20,000	Stock . . .	30,000
Other Liabilities .	40,000	Other Assets . .	30,000
	£60,000		£60,000

Balance Sheet after the Valuation of Goodwill.

LIABILITIES.	£	ASSETS.	£
Capital . . .	25,000	Stock . . .	30,000
Other Liabilities .	40,000	Goodwill . .	5,000
		Other Assets . .	30,000
	£65,000		£65,000

Factors requiring Evaluation.

In any computation of business goodwill, there are always special factors to be taken into account, and, of these, the most important are as follows :—

(1) THE RATE OF INTEREST.—The "normal rate" expected in the business concerned can be decided only by persons who have a thorough knowledge of the particular trade.

(2) THE TENDENCY OF PROFITS, *i.e.*, whether the profits are likely to increase or to decrease in the future. In the example above, there was a tendency towards increased profits, but cases frequently occur in which the tendency is in the opposite direction. For example, profits of £5000, £4000, £4500, £4000 and £3700 over five succeeding years suggest that a

further downward movement is possible in the future. The general state of trade must therefore be carefully considered. Where prospects in a particular trade are hopeful, the valuation figure of goodwill might be increased, whereas if the prospects are discouraging, a rather smaller figure should be adopted. In all cases, it must be borne in mind that goodwill, or the value of goodwill, is considered to be the capitalised value of super-profits which are *expected* to accrue, not which have already accrued.

(3) Special Factors, peculiar to the particular business. Sometimes the whole of the goodwill rests on the personal skill of the proprietor, in which case the goodwill disappears when the business is sold to another person. Again, goodwill may be founded upon certain secret processes, which, if not transferred with the business, render the value of the goodwill negligible.

(4) " Reserves " and similar items in the case of a company. The method of dealing with these items may best be illustrated by a concrete example.

The profits of a company over the past five years have averaged £10,000 per annum, after deducting and paying the interest on debentures; and from the following Balance Sheet as at a given date, it is required to find the value of the goodwill of the business for purposes of sale.

Balance Sheet.

Liabilities.	£	Assets.	£
Capital	20,000	Stock	50,000
Reserve	10,000	Other Assets . .	60,000
Debentures at 6 per cent.	5,000		
Other Liabilities . .	75,000		
	£110,000		£110,000

The same procedure is followed as before. If the normal rate of interest on capital is 10 per cent. per annum, the capital required to earn £10,000 is £100,000, but the shareholders' capital as shown in the balance sheet is only £20,000. To this, however, must be added the £10,000 of Reserve, which is equivalent to capital, making a total due to shareholders of £30,000. This leaves £70,000 unaccounted for. If, therefore, we value goodwill at £70,000, we can " write up " the reserve to £80,000, and redraft the balance sheet as follows :—

Balance Sheet.

Liabilities.	£	Assets.	£
Capital	20,000	Stock	50,000
Reserve	80,000	Goodwill . . .	70,000
Debentures at 6 per cent.	5,000	Other Assets . .	60,000
Other Liabilities . .	75,000		
	£180,000		£180,000

This brings in goodwill at a fair valuation, though it would not ordinarily be so written up in the company's books unless and until a sale of the business were in contemplation.

It may be observed finally that, in valuing the goodwill of any business, allowance must be made for any possible factors which may prevent the business from continuing to earn the same profits. Examples of such contingencies are the lapse of a lease, necessitating removal into less favourable premises; the expiration of an agreement with some technical adviser or manager on whose skill the profits largely depend; and the lapse of a standing agreement for the "sole rights" in a certain commodity, resulting in a loss of profits to such an extent as entirely to destroy a previously valuable goodwill. These examples indicate some of the difficulties, though there are many others, which must be considered when any attempt is made to value the goodwill of a business, and they make it clear that the purchase of any business whose balance sheet makes allowance for goodwill is a transaction where the maxim "*caveat emptor*"—let the buyer beware—should be carefully observed.

QUESTIONS BEARING ON CHAPTER 18

1. Sir Josiah Stamp and his co-author in *Financial Statements and Business Statistics* write: "While goodwill is an asset of the most fixed nature . . . it is necessarily a fluctuating asset because its value is measured by the earning power of the business, which ordinarily fluctuates." There has been considerable discussion as to whether or not this is true. Discuss the question briefly, giving your own reasoned views. (*S.A.A., Final.*)

2. What do you understand by the valuation of "goodwill" on the "super-profit" basis? (*S.A.A., Final.*)

3. Explain the general principles governing the valuation of the goodwill of a going commercial concern which a company proposes to acquire. (*S.A.A., Final.*)

4. Set out all the circumstances which should be taken into consideration in arriving at a valuation of goodwill on the sale of any retail business with which you are familiar. (*S.A.A., Inter.*)

5. (*a*) There are said to be three main types of goodwill. What are they?

(*b*) Upon the sale of goodwill—
(i) What are the assignor's rights; and
(ii) What are the assignee's rights?
(*A.I.C.A., Inter.*)

6. What must a business show in order to possess a realisable goodwill? Give two examples of valuing goodwill, if any, in each of the following: (*a*) Doctor, (*b*) Artist, (*c*) Trading concern. (*A.I.C.A., Final.*)

PART IV

THE COMMERCIAL MARKETS

CHAPTER 19

MARKETS AND THEIR FUNCTIONS

EVEN among most primitive tribes there exists a degree of specialisation of effort and of natural resources which conditions the exchange of goods between them and, as wants and efforts increase with the march of civilisation, so does the volume of goods exchanged grow until it becomes essential to organise the process in some way. Buyers and sellers become so numerous that, rather than wait for chance or promiscuous meetings, special meeting-places are arranged. At these places, *markets* as they are called, buyers and sellers congregate at arranged intervals to exchange goods with one another.

Markets similar to those which existed in primitive days still find their prototypes in the modern markets which deal with produce that will not keep, such as vegetables, fruit and flowers. But even these markets were of much greater importance a century ago—before the development of rapid transport and communication—than they are now.

Many cities and towns of England still retain their ancient market-places where, regularly on one day every week, sellers from the surrounding districts gather together and offer their wares to any who may come to buy.

Certain markets in the direct line of descent from these local markets have achieved world-wide fame. For example, in Russia, the market of Nijni-Novgorod was world-famous, and in Germany, at the annual fair of Leipzig, business men foregathered from all the countries of the world.

The Development and Disintegration of Markets.

Although these local markets, dealing with a multitude of different commodities, chiefly agricultural, are still numerous, they are now of secondary importance. The tendency for sellers of the same commodity or type of commodity to drift together in the market-place, both for their own convenience

and for that of the buyers, soon led to the formation of definite sections in the general market, each dealing only with one commodity, *e.g.*, the meat market, the poultry market, and the vegetable market. At a later stage came the physical separation of the specialised markets which were held on different days and frequently in different places. It is this type of market, exemplified by the fruit market, the cattle market, and the corn market, which is the most important to-day.

At this stage, it will be noticed, there appears a disintegration and differentiation of markets which is of great significance. As this specialisation increases, important markets develop for single commodities in extensive use such as wheat, cotton and meat, and such markets increase continually in size and importance as communications develop and new countries are opened up, bringing about an expansion in world-production. Although the market may still retain its original locality, it now serves the buyers and sellers of many, or even all, countries—it becomes a *world* market, and prices therein are governed by international and not local conditions.

Marketing by Sample.

As the variety and value of goods increase and the quantity of each type of product grows, it becomes more and more difficult to display the whole stock which is offered for sale. The system of selling by sample is a natural solution of the problem, as it enables a larger number of buyers and sellers to come together, and gives them a greater variety from which to select. The sample is more easily handled than the bulk, and by its use the bulk can be disposed of in a distant market without being inspected by the purchasers. An enormous gain in time, energy and money accrues in this way. Naturally, not all commodities can be sold in this manner, but the method is particularly applicable to commodities of world-wide importance and uniform character, especially raw material such as pig-iron, grain, wool and timber. Goods that are manufactured in large quantities to a standard specification are also eminently suitable for sale by this method.

Marketing by Grade.

This is a development of sale by sample, and applies more especially to such raw materials as can be conveniently classified according to quality. In the efficient produce markets of to-day the raw materials dealt in are graded by independent authorities according to fixed standards, so that the quality of any commodity is immediately recognisable *from its description alone*, and the buyer knows exactly what to expect. Whole cargoes, or even crops, of the raw product change hands many times on the simple assurance that on delivery they will conform to a certain specified grade of quality.

The Advantages of Grading are many. First, there is the advantage that, with quantity, size and quality fixed or determinable, price is the only indeterminate factor. Secondly, grading makes sale by inspection and sample easier, since fewer samples are needed and these samples conform more closely to bulk than do samples of goods which are not graded. Where grading exists, it is not necessary to separate commodities produced at different times and places if the various lots each fulfil the characteristics of the same grade. Thirdly, grading makes possible dealings for future delivery, as, for example, in the cotton markets, where the methods have reached a high degree of perfection. Fourthly, financing becomes a simpler and cheaper process, for not only can prices be more easily determined and fluctuations more certainly followed and forecasted, but also banks are more willing to grant loans against the security of goods whose exact quality is known or ascertainable. Finally, the development of grading widens the market and facilitates the dissemination of accurate market knowledge.

Grading is becoming important in the retail as well as in the wholesale trade. The number of articles sold in standardised packages is increasing rapidly and the position of the retailer is becoming that of an agent satisfying the demands which arise out of extensive advertising by producers. The effect of this tendency is to reduce the price paid by the consumer, since the number of inspections and, therefore, the cost of inspection are reduced.

Grading by the State.

Where trade is conducted on the basis of grades, a definite and more or less permanent system of rules for grading the commodity must be drawn up as an effective foundation for dealings, and the view has been expressed that, since the State already fixes standard weights and measures and determines standards of value, it should also fix standards of quality. But the determination of quality is not so easy a matter as the determination of quantity, and it would be difficult and, in some cases, impossible for a Government Department to impose arbitrary grades and methods of standardisation on various trades. In some cases, however, such State action is possible. In the United States and Canada the central governments have definitely assumed the function of determining standards of quality in such commodities as grain, cotton and apples. But in most countries the action of the State has been restricted to protecting consumers from abuses such as adulteration, and grading is left to private organisations, as, for example, the Liverpool Corn Trade Association Ltd., which undertakes the grading of wheat at Liverpool.

A great difficulty in the way of Government interference in grading arises from the fact that part of the market for the goods concerned may be outside the jurisdiction of the grading authority. The only remedy in such cases lies in the direction of *international* grading. The need for this is felt especially in the case of commodities having a world market. Liverpool grades of American cotton differ from those fixed in the United States, the result being that sampling and the arbitration of quality occasions much delay when American cotton reaches Liverpool. Clearly, international grading on a uniform basis would ensure greater efficiency and lower costs in the international trade in staple commodities.

How the Markets are Related.

One result of the development and disintegration of markets has been the creation of a long chain of hands between the original producer and the ultimate consumer; and this in spite of the fact that it is absolutely necessary for the former to retain some degree of contact with the latter. This contact is preserved by marketing organisation.

The simple example of the production and marketing of the materials contained in a cotton dress and of the dress itself will illustrate the manner in which the various markets are interrelated. The raw cotton is grown in the United States of America and passed through the collecting centre at Memphis. Eventually it is transported to Liverpool and, on the famous cotton exchange of that city, the shipment is sold in bulk—it may even have been sold before ever it was gathered from the cotton field. The raw cotton is purchased by the spinner and forwarded to a spinning mill, where it is converted into yarn. The yarn is transferred to a weaving shed and woven into cloth, which is passed on to bleachers and dyers. The material thus produced is then made up into a dress and sold to a wholesaler, who in turn sells it to a retailer, from whom it is bought by the ultimate consumer.

This intricacy of the marketing process involves a problem which is of vital importance to both producer and consumer—the high cost of the marketing function. It has been estimated that the marketing of bread accounts for fifty per cent. of its cost; in the case of shoes and ready-made suits thirty per cent. is attributable to retailing; while in other cases even greater percentages of price are due to the like expenses. Naturally the magnitude of distribution expense creates a great difference between the prices received by producers and those paid by consumers, and has consequently been the cause of much comment and criticism. Unless marketing is performed cheaply and efficiently, it fails to fulfil its primary object and is merely a burden to the community.

Classification of Markets.

Markets may be classified as (*a*) those concerned with raw materials—*i.e.*, the "produce" and "commodity" markets, such as those for cotton, wheat, wool, rubber and copper, where importers or producers dispose of their goods to wholesalers; (*b*) those concerned with semi-manufactured goods, *e.g.*, those linking spinner and weaver, miller and baker, steel works and engineer; (*c*) the wholesale markets, *i.e.*, those connecting producer and retailer; (*d*) the retail markets, *i.e.*, those linking wholesaler and consumer; (*e*) ancillary markets, which enable the great commodity markets to function with ease and economy. The outstanding characteristics of these markets are briefly explained in the following pages, whilst more detailed information will be presented in later chapters.

The Markets for Raw Materials.

The principles of marketing goods by sample and by grade have already been explained. Most of the markets for raw materials, *i.e.*, the so-called *produce* or *commodity* markets, are conducted on these principles and include among them some of the most important markets in the world; each is characterised by being centralised or localised in some important city, though embracing practically the whole world in the scope of its operations. There are various reasons why the world's most important cotton exchanges are situated in Liverpool and Manchester, and why Mincing Lane is the centre of the world's markets for rubber, tea, coffee, rice and other commodities. Custom, control over raw materials, the concentration of demand for raw materials, the situation of a port or an important trade route and similar influences are important factors in this well-marked localisation (see Chapter 21).

The great commodity markets necessarily provide highly developed facilities not only for the gathering together of buyers and sellers, but also for the fixing of prices, the grading of commodities and the publication at frequent intervals of market reports containing particulars of prices, quantities sold and other information. The prices are published daily in market lists and in the newspapers, and are thereby made known to everyone concerned. Reports on the business effected in the markets are usually issued daily or at other convenient intervals, the operating dealers being themselves responsible directly or indirectly for the collation and preparation of valuable information concerning crops, raw material production and existing stocks—information which does much to steady market operations, to facilitate transactions and to minimise the risks of business to traders and producers, who, by carefully studying market reports and prices, are able to estimate future price movements.

An important feature in the recent development of commodity or produce markets is the increasing use that is being made of the telephone and other rapid means of communication for effecting transactions. In most of these markets there is still a central exchange, or, as it is called on the Continent, a *Bourse* or *Börse*, at which dealers meet, but the tendency is to transact more and more business over the telephone; indeed, some markets have entirely abandoned localised and personal exchange dealings.

This recent development of the commodity markets has led to the abandonment of the idea that a market necessarily implies a localised market-place, and has led to the acceptance of the definition of a market as "*a commodity or group of commodities and the buyers and sellers thereof who are in direct competition with one another.*" In other words, the term "market" implies a set of *conditions* involving a commodity and the persons dealing in it.

The Wholesale Market.

The market through which manufacturers release their finished articles is commonly known as the *Wholesale Market*, which, unlike the produce markets, is not centralised. Importing and exporting constitute a large part of the business of the wholesaler, and the commercial travellers employed by wholesale dealers extend their operations over wide areas.

The function fulfilled by most markets in facilitating the dissemination of information is of special importance in the wholesale market. Information received by wholesale dealers through retailers regarding the requirements and desires of the consuming public is passed on to manufacturers, and this to a great extent decides production policy.

The Retail Market.

This is the last market through which goods pass on their journey from producer to consumer, and it is strikingly different in certain respects from those commodity markets into which raw materials are first launched. The retail market is world-wide in the sense that it is represented by shops in every city, town and village in the world; but it is the most inchoate—the least organised—of all markets. It is, moreover, the least capable of standardisation. The fact that two similar shops in the same town may charge different prices for the same goods is usually a perfectly logical consequence of local conditions. Yet this market meets the demands of the public for "shopping" facilities, which are convenient as regards both locality and size of purchases.

The retail market is merely a development of the old type of market, and the form and extent of its development are best explained by describing it as a *continuous* market—continuous

in respect of its diffusion, and continuous in respect of time, for it is not confined to certain definite places nor to fixed days as was the old fair.

Ancillary Markets.

Recent industrial and commercial developments have promoted the growth of markets ancillary to those concerned with raw materials and manufactured articles, such as the Capital Market, the Money Market and the Foreign Exchange Market.

THE CAPITAL MARKET embraces all those agencies and organisations, defined and undefined, through which the savings and surplus funds of the community are concentrated and lent to traders and others who require to borrow funds with which to carry on their business. Most important of these agencies is the *Stock Exchange*, which provides a market for investments and, by the facilities which it offers for liquidating and transferring investments cheaply and easily, is to a large extent responsible for the rapid growth of joint-stock companies within the past few decades, and ultimately for that great expansion of large scale business which joint-stock enterprise has made possible.

THE MONEY MARKET.—The Money Market is strictly a section of the Capital Market, but is of such vast importance that it deserves separate mention. Moreover, the Money Market is distinct in that it deals essentially with *short term loans*, *i.e.*, it comprises borrowers and lenders of money who exchange its use and ownership for a short period in return for a price termed "*discount.*" By rendering funds available for profitable use, the Money Market performs invaluable service in financing transactions of merchants and manufacturers.

THE FOREIGN EXCHANGE MARKET.—This is one of the most interesting of the ancillary markets. Its operations, which are of world-wide extent, comprise the buying and selling of foreign currencies and the settlement of international debts arising from the exchange of goods and services between the different countries of the world (see Chapter 42). But for the existence of this market, foreign trade and international financial operations on their present scale would be quite impossible.

Despite their peculiarly specialised nature, the three great ancillary markets in many respects resemble the commodity markets. The things dealt in are obviously well graded, and the marketing is therefore conducted on that basis. Though centralised, the markets are to some extent diffused. Thus England has several provincial stock exchanges besides that in London, which is characterised by its retention of a market-place—the London Stock Exchange—where practically all the business of the market is transacted.

The London Money Market, Capital Market and Foreign

Exchange Market have their counterpart in the capital cities of the most important countries, but those of London and of New York are easily the most important in the world.

Conditions of a Perfect Market.

The perfect market is one wherein the following conditions exist:—

(1) Free Competition.—This exists only when all the buyers and sellers act solely in their own interests (*i.e.*, when there is an absence of rings or other combinations whereby sellers or buyers associate in order to control prices). Free competition is essential if there is to be one price only at one time for a given commodity. It is also necessary if close prices are to be quoted and if the rate of profit is to be kept to a minimum.

(2) Easy Communication and Effective Transport.—All buyers and sellers in the same market must be in a position to effect transactions with great promptitude. They must also be able to obtain exact information regarding changes in prices and market conditions, and as to the probable future course of events. Transport systems must be such as to permit the speedy, safe, and economical transfer of goods from place to place; for difficult, tardy or expensive transport tends to make marketing uncertain and inefficient.

(3) Wide Extent.—The conditions which must be fulfilled by a commodity if it is to enjoy a *wide* market may be summarised as follows:—

(*a*) *Extensive Demand, i.e.*, many buyers.—The market in wheat is necessarily wider than that in diamonds, because the former commodity is in more general demand. An extensive demand may conceivably exist temporarily for a commodity the use of which is dictated by fashion, but when fashion changes the market collapses.

(*b*) *Portability of the Commodity.*—Bulky articles of low value, *e.g.*, bricks and sand, have only a local market, for the cost of transporting them over long distances is prohibitive. On the other hand, gold and diamonds, silks and shares are easily transported and have a world-wide market.

(*c*) *Suitability for Grading, Sampling and Exact Description*, so that the bulk can be sold by letter or cable across the world, without any possibility of misunderstanding or doubt. Cotton and wheat can be so sold; cattle are obviously not purchasable without inspection.

(*d*) *Durability of the Commodity.*—Perishable and fragile articles cannot be transported over long distances,

and have therefore only a narrow market. Further, the market in perishable commodities is limited as to time. In the case of strawberries, for instance, prices can be fixed only a few days ahead.

(e) *Extensive Supply.*—Only a very restricted market can exist in commodities such as antiques, curiosities and works of art, the supply of which is limited. The same would apply if the supply of a commodity were artificially limited.

To sum up, the non-perishable necessaries of life generally enjoy a world-wide market. Other commodities, however, are usually restricted to narrower markets. The wider the market becomes, the narrower become the price differences.

Market Price: The Law of Indifference.

Though markets have reached a very high stage of organisation, yet there are probably, even now, no perfect markets. In none of the cases we have described is competition perfectly free, and communication between buyers and buyers and sellers and sellers unhindered.

But if perfect conditions are assumed to exist in any market, no buyer will pay more for any given article than any other buyer is required to pay. And it must follow that, so long as the buyer gets what he requires, he is *indifferent* as to who supplies it. Thus, if the price asked by one seller is lower than that asked by others, then all the buyers will desire to purchase from that seller. In like manner, no seller will willingly dispose of an article at a lower price than that obtained for the same article by any other seller; if one seller obtains a certain price, all other sellers tend to hold out for at least as good a price.

It may be concluded, therefore, that *in the same market, at the same time, there tends to be only one price for the same commodity.* By the same commodity is meant one of exactly similar quality and character, any unit of which will be used or held indifferently in place of an equal unit. This tendency, which is described as the Law of Indifference, *tends* to operate in all markets, although it is not absolutely operative in any market. Actually, as has been said, perfect competition exists nowhere, and the very existence of competition presupposes temporary variations in price as between one dealer and another.

Market Reports.

A Market Report, as the term implies, is a report as to the state of the market in a given commodity or in given commodities on a specified date. Such reports are issued in respect of practically every market, and they are published in the London and/or provincial newspapers, in the trade periodicals or as

special leaflets issued by market dealers to their customers and correspondents. Usually these reports appear immediately after the so-called "market days," *i.e.*, the days on which the particular market concerned is held, or the day on which the greatest number of transactions in the commodity concerned are recorded.

To anyone unacquainted with the technical terms used, market reports are almost unintelligible, especially as the terms concerned relate not merely to the type and grade of commodity, but also to such matters as prices, conditions of delivery and the general "tone" or state of the market on the day in question.

It is in regard to the description applied to the general tone of the market, however, that the layman is likely to be most confused, for, as will be seen from the specimen report which follows, an endless variety of terms are used for this purpose and the meaning is sometimes a matter of context and sometimes a matter of what the writer of the report intends to convey. Thus the terms *weak, depressed, flat, heavy, dull, quiet* and *inactive* are variously used to indicate that there were more sellers than buyers, that business was slow and that the tendency of prices was downward. Reverse conditions are indicated by such terms as *brisk, bright* or *active,* all of which are used to express the fact that transactions were numerous, and prices probably advancing, although the term *advancing* itself is used more precisely to mean that prices were on the up grade. The terms *steady* and *firm* imply that prices were maintained and showed no tendency to recede, whilst the term *strong* is often applied to mean that there were more buyers about than sellers and that prices advanced rapidly. On the other hand, the report that prices *tended to ease* means that they were inclined to fall away in the absence of sufficient buying to keep them up.

A perusal of specimen market reports such as that reproduced below indicates unmistakably how prices on any market are determined, in accordance with the theory which we have outlined in an earlier chapter, by the interplay of demand and supply. When demand is strong in relation to the available supply, the market tends to increase in activity and prices tend to harden or rise. A weak demand and inactive buying, on the other hand, lead to lower prices and dull market conditions. In general, market price tends to be adjusted at that point where the supply which is forthcoming is sufficient to meet the demand at the prevailing price.

HIDE, LEATHER AND ALLIED TRADES.

Prices for hides and skins from home-slaughtered cattle continue to weaken, the auctions at Manchester this week showing reductions of from [illegible]d. to ⅜*d.* per lb. for practically all classes and weights of ox and heifers. Cows, bulls and calfskins were also lower on average. The market for sheepskins remains fairly steady, although a slightly easier tendency is

noticed in regard to lambs. Turnover in connection with imported hides continues small, as in view of the unsettled position of prices for most descriptions, tanners are confining their purchases to limited requirements only. In the South American market most descriptions of Frigorifics have been obtainable at reduced prices, Argentine ox having changed hands to the United States at just over $4\frac{1}{2}d.$, while second ox have been taken for tanners in this country at $3\frac{7}{8}d.$ In spite of the low prices ruling for dry South American hides the amount of business transacted has been small. M.V. Americanos are quoted at $5\frac{5}{8}d.$ and B.A. Americanos at $5\frac{1}{4}d.$

In regard to African hides, the market is again slightly weaker, dry Capes having been sold at $6\frac{3}{8}d.$ and $5\frac{3}{8}d.$ for firsts and seconds, while dry salted descriptions have realised $5\frac{3}{8}d.$ and $4\frac{3}{8}d.$ for 20–30 lbs. Australian hides are quiet with reductions quoted on some lines. In the sole leather market rather more business has been done during the week, and prices for most descriptions remain steady. Shoe manufacturers have been inquiring for dry hide bends in medium weights, in addition to which the repairing section have been fairly good customers for English and wet salted descriptions. Respectable sales have also been made of pinned offal, but rough bellies and shoulders have not been asked for to any extent. Manufacturers and merchants of upper leathers continue to experience a steady sale for most of the staple lines, box and willow calf and glacê kid being in most request. Patent is also a fair market, while there has been some slight improvement in the call for curried leathers. Fancy leathers for footwear purposes only sell in small quantities, but at the same time there has been some slight improvement in the price position.

QUESTIONS BEARING ON CHAPTER 19

1. Give some account of the rise and growth of markets, and explain why the marketing function has tended to become increasingly specialised.

2. What do you understand by (*a*) marketing by sample, and (*b*) marketing by grade ?

3. Give a broad classification of the great commercial markets.

4. In what respects do the wholesale and retail markets differ one from the other ?

5. What important ancillary markets exist which admit of the easy and economical functioning of the great commercial markets ?

6. Give some account of the conditions which make for a perfect market, and illustrate your answer by reference to two important commodities.

7. Explain the general implication of the following terms used in Market Reports : (*a*) Dull ; (*b*) active ; (*c*) strong ; (*d*) in request (*e*) strongly called for ; (*f*) weak.

8. What are the objects and advantages of grading and standardisation as applied to the important commodities of commerce ?

CHAPTER 20

BUSINESS INTERMEDIARIES AND RISK BEARERS

THE growth of markets and the consequent specialisation of marketing functions has brought into existence a number of "business intermediaries" whose function it is to direct the flow of goods on their way from producer to consumer, and whose reward for services rendered is based upon the specialised knowledge and skill which they exercise in performing their functions.

These business intermediaries or "*middlemen*," as they are called, have established themselves firmly and profitably at various points in the marketing process. The wholesaler and the retailer are middlemen, but, in addition, there are others who operate between wholesalers and retailers, and between manufacturers and wholesalers. These are known variously as *agents, factors, brokers, dealers, merchants,* or *speculators,* and their primary function in every case is to bridge the gap between buyers and sellers on the market.

Though the middleman often, or, indeed, usually, performs a most useful and valued function, his position is often assailed. By extremists he is regarded as a parasite who, though performing no useful function, takes advantage of every opportunity to raise prices to the consumer without passing on the benefit to the producer. This is hardly a true estimate of the position; for, generally speaking, the middleman serves a useful purpose in directing the flow of goods—"the middleman is the signpost which directs the goods to market." He himself is an expert, specialising on marketing, and thus relieves manufacturers of a task which is really beyond their scope. The manufacturers' business is to produce, and the link between producer and consumer is forged by the middleman. He finds a market for the producer, and for the consumer he finds out what he wants and supplies those wants. In this way, with his expert knowledge of demand and supply, he is able to direct goods from regions where they are plentiful to regions where they are scarce; his efforts tend to level up prices over periods and in different places, and he does much to ensure that goods reach the consumer at the most economical prices.

Eliminating the Middleman.

Despite the fact that the functions of the middleman have become of greater importance with the extension of specialisa-

tion, strenuous efforts are being made in all branches of trade and industry to cut him out as a separate entity, and to market the world's produce by the most direct route, efforts which are assisted by progressive developments in business organisation, in transport and in communication. Thus, there is a marked tendency nowadays for direct dealings between manufacturers and foreign buyers to increase. The appointment of consuls and trade commissioners in the chief commercial centres, the opening up of the world by means of the telegraph, telephone, and cheap and rapid postage, and the growing popularity of international exhibitions, enable manufacturers to get into close touch with prospective buyers and by so doing to supply direct and eliminate the middleman's profit.

In the case of perishable goods, direct marketing from producer to consumer has the advantage that considerable time may be saved and expensive storage facilities eliminated, while, in the case of specialty goods, marketing by the producer's own representatives may be more efficient than marketing by a general merchant. Finally, there is the general effect that there must be a direct saving on financing, on records and on bookkeeping when fewer changes of title take place and goods are transferred from the actual producer or wholesaler direct to the retailer or even to the consumer.

Various methods have been employed to dispense with the middleman, but among the most important are the following, which are explained more fully elsewhere in this volume :—

(*a*) Kartell Organisation with selling agencies. Here producers themselves combine to sell their products.

(*b*) Vertical Combination to secure raw material supplies and/or markets for the finished products. Thus Unilever Ltd. has its own supplies of vegetable oils, while coal and iron mining concerns and steel and engineering firms have combined together to secure both raw materials and markets.

(*c*) Direct Buying of raw materials by manufacturers from raw material producers. This is more common than—

(*d*) Direct Selling by manufacturers either by the mail-order system or by the opening of retail stores, as in the boot and shoe trade.

(*e*) Consumers' Co-operative Societies. Here consumers combine to buy direct from wholesalers and manufacturers, and in some cases may even acquire their own sources of supply.

This elimination of certain forms of intermediary business cannot succeed, however, unless it results in lower prices to the consumer. Moreover, organisations of middlemen are often extremely influential, and for this reason a trader who ignores established middlemen, and attempts to trade direct with his

suppliers or consumers, takes a grave risk, for, should he fail to achieve his object and be obliged to return to the old method, the middlemen may place serious obstacles in his way. Sometimes the elimination is made more difficult by the fact that the middleman's business includes the financing of suppliers or customers, who thereby become economically dependent upon him. In such circumstances the middleman becomes all-powerful and attains an autocratic position. Though the actual conduct of his business may be perfectly legitimate, this economic dominance has serious drawbacks, for it tends to do away with competition and to leave the determination of prices largely in the hands of the middleman—to the detriment of the consumer. A middleman who can thus bias trade in his own favour is, indeed, a parasite, and by putting commerce in bondage he makes himself a destructive social element.

Much of the criticism of the middleman is based on the fallacy that it is possible to dispense with his services. Economically, it may be possible to dispense with a middleman, but his functions remain and must still be performed by someone. Manufacturers who sell direct to the public through their own shops are combining the functions of production with those of marketing, and much of their success must depend on the manner in which they discharge the latter function. Indeed, the problem of the middleman would appear to be whether the functions of marketing are best performed by a specialist or whether they could better be merged with another function.

For certain reasons, therefore, the middleman is likely to remain. "So long as there are small producers who cannot distribute their own products economically; and so long as there are large producers inadequately supplied with capital to carry on extensive distribution activities or handling too limited a 'line' to make direct marketing possible; and so long as there are small retailers who find it difficult to get in direct contact with their numerous sources of supply or with whom it does not pay the producer to get into direct contact; or so long as ultimate consumers find more valuable use for their time than to talk with, correspond with, or read the advertisements of, the hundreds of producers whose goods they consume—just so long the middleman is likely to continue to function as an independent unit" (Clarke, *Principles of Marketing*).

TYPES OF INTERMEDIARIES

Brokers.

In the marketing of many commodities the services of a *broker* are employed. A true broker merely negotiates for the sale or purchase of goods and neither handles them nor performs any of the ancillary services which are discharged by the commission salesman or commission buyer. In practice, however,

many so-called brokers actually handle the produce which they buy or sell.

Amongst *produce brokers, i.e.*, those who arrange for the purchase and sale of raw materials and commodities, specialisation is carried to a very high degree. This is particularly the case in the important markets for imported goods such as sugar, coffee, tea, rubber and timber. Many commodities, for example, wool and tea, are sold by auction, but large quantities of these commodities, as also the whole of those commodities which are not imported in sufficient quantities to justify sales by auction, are disposed of by private sales through the medium of brokers who are in constant touch with buyers.

In this way, for example, about 80 per cent. of the currants imported into this country are sold. The grower sells his crop to a shipper, and the latter notifies his broker that he has a consignment for sale and mentions a price. The broker then negotiates for the sale of the currants and obtains offers which he submits to the shipper. After some bargaining the broker will probably complete a contract for his principal and arrange for delivery of the consignment to the purchaser.

Clearly, the services of the broker are of great benefit both to sellers and to buyers. Besides bringing into relationship buyers and sellers who otherwise might never hear of each other, a broker often actually arranges to have the goods put in a suitable condition for delivery. Brokers maintain extensive organisations for keeping in touch with suppliers and with customers, and their advice is frequently invaluable to the producer who is not himself able to study market movements and other problems of importance to his business. Moreover, as each broker acts for several firms, he is able to secure fair prices for producers; he is in touch with most of the buyers in the market and is, therefore, in a much better bargaining position than the grower or the shipper. The charges made by the broker for his services are comparatively small, and are certainly lower than would be the cost to the producer of marketing his own produce.

Commission Agents.

This title represents the genus of which commission buyers and commission salesmen are species. Commission agents exist in every branch of trade and, generally speaking, are clothed with the authority and liabilities of a "*factor*," in most cases being personally liable on contracts into which they enter. For instance, a commission agent who acts on behalf of a foreign importer or exporter is liable (in the absence of agreement to the contrary) to the person with whom he contracts just as much as if he were contracting on his own behalf. Moreover, when a commission agent contracts in his own name, without disclosing either the fact that he is an agent or the name of his

principal, he becomes personally liable on the contract, and is then sometimes known as a " *commission merchant.*"

Del Credere Agents.

An agent of any kind who arranges with his principal that he will hold himself personally liable for the default of the customers he introduces is known as a " *del credere* " agent, and he is paid an extra commission, known as " *del credere commission,*" for undertaking this risk in addition to carrying out the normal business of an agent.

A Practical Illustration.

The relationship of some important types of business intermediaries, both to one another and to the business in which they function, may be usefully indicated by a brief consideration of the organisation of the fresh fruit and vegetable market as it is centralised in London. In this connection it may be observed that the place of production is an important factor to be considered in deciding how the marketing of produce shall be carried out. For instance, fresh fruit and vegetables are usually grown in places which are some distance from the consumer; those growers who are situated near an area of dense population may be able to dispense with the services of an intermediary and sell direct to the consumer or to the retailer, but other growers, less conveniently situated, find it best to market their produce through a wholesaler, whilst others again—and these are an important group—market their produce through *commission salesmen.*

The commission salesmen facilitate the marketing of produce *in bulk.* They operate in the wholesale markets and sell direct to wholesalers and retailers or to intermediaries in other markets and towns. In the case of fruit and vegetables, their business is facilitated by the wholesale fruit and vegetable market-places which exist in most important towns, and which function as collecting, distributing and grading centres.

The business of the commission salesmen is to sell their clients' produce at the best possible price. They are in constant touch with market affairs and are in a position to advise growers when and what to sell. The commission salesman is not merely a selling agent, however, for, besides finding customers for his principals, he may also provide baskets or crates for packing and may pay various charges, including freight, which are incurred in marketing the goods. He carries out all sales in his own name and accounts to the grower for the proceeds, at the same time accepting responsibility for the solvency and good faith of his purchasers and thus bearing the risk of bad debts. For his remuneration the commission salesman deducts from the proceeds of his sales his agreed commission and the expenses which he has had to bear.

This method of sale on commission is very common and appears to be efficient and economical. During the course of its research into methods of marketing agricultural produce, the Departmental Committee on the Distribution and Prices of Agricultural Produce found that, whilst most of the produce raised by growers in the vicinity of consuming areas reached the consumer through the agency of the retailer only, the greater part of the balance was marketed through commission salesmen. Probably more than half this balance is sold through commission salesmen in London, and a great part of the remainder passes through the hands of provincial commission salesmen.

The *commission buyer* performs functions for the buyer similar to those which the commission salesman performs for the producer. Covent Garden is the centre of the activities of commission buyers who use their specialised skill and knowledge in effecting purchases of fruit and vegetables for London and provincial wholesalers and retailers. In some instances, the commission buyer makes his purchases direct from the grower. He also performs many of the services carried out by the commission salesman, such as paying expenses, arranging for carriage and delivery, and dividing produce into convenient lots. In consideration for his work he receives an agreed commission.

It is now possible to gain a comprehensive view of the process of marketing fresh fruit and vegetables in and around London. The Departmental Committee mentioned above found that these commodities sometimes passed through the hands of no fewer than five intermediaries. The grower makes use of the services of the London commission salesman who sells to the London wholesale merchant; the latter sells the produce to the provincial commission buyer who purchases the goods on behalf of the provincial wholesale distributor. The produce passes from the latter to the retailer by whom it is finally marketed to the public. It is not surprising, therefore, that the difference between the price obtained by the grower and that paid by the consumer is very great; for besides the profits which each of these intermediaries expects, there have also to be paid the heavy porterage and freight expenses necessitated by the frequent handling and transportation of the goods. On the other hand, it must be remembered that, had the growers to attend to all the details of marketing and to bear all the expenses incurred and trouble involved, the ultimate price to the consumer might be even higher.

BUSINESS RISKS

Anyone who undertakes the management and direction of a business of necessity assumes certain risks, and his skill or lack of skill in evading these risks is indicated by the balance on his

profit and loss account. The actual nature and extent of the risks necessarily vary according to the type of business; some businesses involve little or no appreciable risk, whereas in others the danger of loss is extremely marked. In other words, some businesses are by their nature more *speculative* than others.

Speculation.

Speculation is a term of varied interpretation and of wide significance; in fact, any one who produces in anticipation of demand may be said to be a speculator, but the primary application of the term is to that class of business operation which is undertaken in the expectation of making a profit from price movements. The fundamental principle involved is the purchase or sale of a commodity now with the object of a sale or purchase at a profit *at some future time.*

Speculation is of two distinct types :—

1. SPECULATION PROPER, *e.g.*, the operations of a dealer in produce, who speculates on the probability of a rise or fall in the price of a commodity. If, for example, wheat crops are good, a dealer may sell for future delivery a quantity of wheat, which he does not actually possess, in the anticipation of a future fall in prices; if crops are poor, he buys in anticipation of a future scarcity and high prices.

2. ILLEGITIMATE SPECULATION, or gambling, consisting mainly of operations undertaken blindly and ignorantly by uninformed speculators with the idea of reaping large profits. It may also signify *deliberate* manipulation of the market as happens in the case of a *corner* by highly skilled operators. The risk of loss is considerable, and frequently the whole of the capital invested may disappear. The evil of such speculation is that the operators frequently risk little of their own money but operate largely on borrowed capital or without capital at all. On the stock markets, bull and bear operators may endeavour to manipulate prices with the object of influencing the public demand for certain stocks. When prices have risen sufficiently, or have been sufficiently depressed, they " unload " their holdings at the high prices or buy in as much as possible at the low figures. Speculation of this kind is harmful to the community in general, for private investors are frequently victimised by the violent price fluctuations so engineered, and it may be long before confidence revives sufficiently to ensure that the capital requirements of legitimate enterprise will be met. While legitimate speculation tends to smooth out fluctuations in prices, gambling serves only to accentuate them.

" Bulling and Bearing " is perfectly legitimate when undertaken in anticipation of a *natural* movement in prices, but not when undertaken with the object of producing an *artificial* level of prices.

Such highly organised markets as the Stock Exchange and the great commodity markets are particularly suited for such operations, for not only are conditions thereon nearly perfect (see page 283), but there is also present that element of uncertainty, both as to the supply of and the demand for the commodity, which gives operators an opportunity of making speculative profits, and enables them, by bringing into play powers of foresight and anticipation, to earn a due reward for their keenness and business ability in estimating the tendency of prices. On these and all other important markets are to be found *professional speculators* who make their profits by specialising in the study of factors likely to cause price changes (*e.g.*, changes in productive capacity and conditions on other markets).

Economic Effects of Speculation.

The speculative dealings of such persons are beneficial for several reasons. In the first place, by their so-called "arbitrage operations" of buying in one place and selling in another, speculators tend to level out price differences between different markets, and so to bring about a territorial adjustment of supply to demand. Secondly, by discounting future price movements, speculators render price changes more gradual. They buy *now* in anticipation of a future rise in prices and so they raise current prices, thus discouraging consumption and encouraging production. On the other hand, by selling *now* in anticipation of future low prices, they cause prices to fall at once, thus encouraging consumption and discouraging production. In each case the movement in prices is rendered more gradual, and this reduces the risk that traders run in carrying large stocks.

Actually, this form of speculation amounts to specialisation in risk-taking, and it provides a means whereby manufacturers and producers can concentrate on production without having to bother about market risks.

Speculation smooths out the flow of produce and thereby enables the equilibrium of supply and demand to be maintained approximately at a normal price level. For example, if the whole supply of a commodity such as wheat, were flung upon the market during harvest, it could be absorbed only at very low prices, and, once it had been absorbed, prices would rise to a very high level. Speculation, which tends to increase the supply of things where and when they are likely to be most wanted, and to check the supply of things where and when they are likely to be in least urgent demand, is therefore of great service in aiding the adjustment of supply and demand by discounting in advance the effect of any otherwise awkward and disturbing change.

It is sometimes said that speculation increases fluctuations in prices. While it is true that in a highly organised market

every item of news, good or bad, will affect prices and therefore make changes more frequent, the effect of speculation is to reduce the *intensity* of these fluctuations and to spread the changes over longer periods. Short term changes cannot, of course, be avoided, for these are the inevitable accompaniment of an organised market.

On the other hand, speculation is attended by certain evil effects. Since speculators make their profits out of price changes it is obvious that there are times when it pays them to manipulate prices themselves. Such manipulation may be effected either by direct dealing or by indirectly influencing other persons.

An outstanding form of market manipulation is the "corner," whereby the *bull* operator endeavours to force prices up. A "corner" really involves the acquisition of control of the whole supply, but this is nowadays almost impossible in respect of any of the common commodities, and the term is used to mean control of the supply of a commodity available at any particular date. A successful corner is extremely difficult to arrange, for the rise in prices which follows heavy buying tends to attract supplies that would normally be marketed later. As a general rule, therefore, a corner will be successful only if the views of the operator are more correct than those of the market as a whole. Thus, in 1887, the Chicago wheat market was successfully cornered by Leiter, because the market estimate of the production of wheat for that year was too high. A second attempt by the same operator in 1902 failed, however, owing to the fact that he had overlooked certain sources of supply.

The second method of manipulating price movements involves the spreading of false rumours concerning a particular commodity. Thus a "bull" of a commodity, share or currency may spread throughout a market news of such a nature as to encourage the purchase of the commodity, etc., in which he is interested, and when prices have risen sufficiently he will "unload" and leave the unsuspecting public "to hold the baby," as it is called. On the other hand, a speculator for a fall may attempt to depress prices by spreading unfavourable reports concerning the commodity in which he has taken up his "bear" position.

Arbitrage Operations.

An operator in this type of business takes his profits from price differences existing in different places *at the same time.* He must, therefore, be clearly distinguished from the more common type of speculator whose profits (or losses) are derived from price movements *over a period of time.*

Usually it is necessary for arbitrage operators, or *arbitrageurs,* as they are called, to operate in conjunction with agents or

friendly operators in foreign centres. They keep in close touch with one another, and at frequent intervals remit information concerning ruling prices of either goods, securities or foreign exchange—according to what happens to be their specialty; it is necessary, then, for each to convert the prices quoted in foreign currency into terms of his own currency. The method of dealing is based on the simple principles of buying where prices are lowest, and selling where they are highest.

It is obvious that any price difference that may exist between two centres foreign to each other is composed partly of a difference in commodity prices and partly of a difference in foreign exchange rates. Still more obvious is it that profit margins in arbitrage dealings will be greater when prices fluctuate widely than when they are stable; but under those conditions, deals must be carried out with great rapidity (*i.e.*, by cable or telephone), otherwise an unfavourable fluctuation may turn a profit into a loss.

The Elimination of Risk.

Although, as we have stated, some element of risk or of speculation is associated with every class of business, means do exist whereby the trader can protect himself against the various risks to which his business is subject. Of these, the most important and obvious method is *insurance*. This is dealt with comprehensively in a later chapter, but here it may be observed that the risk of loss through fire, burglary or the payment of compensation to an injured workman, may be transferred to insurance companies. The risk of breach of contract may also, in some cases, be insured against. The system of hire purchase and instalment selling has introduced a new form of credit risk, but even in this sphere there has arisen a type of business house which finances consumer credit and is willing to take part of the risks, *e.g.*, the United Dominions Trust and Consumer Credit Corporation Ltd.

The risks of bad debts, again, are inseparable from any business which grants credit to its customers, but these also may be largely avoided if effective use is made of the services of *Credit Enquiry Agencies*, which not only supply information concerning the financial position of various traders, but also undertake the recovery of debts. Even greater security against losses by bad debts may be obtained by means of *Credit Insurance*. Here, the trader supplies the insuring company with full particulars regarding the standing and business of the customer to whom he desires to grant credit, while the insuring company will also refer to their own sources of information, such as the banks and credit enquiry agents, for information of the same character. They then proceed to assess the risk, taking into consideration all the information collected, and on payment to them of an agreed premium, the trader knows that, in

the event of default by his debtor, the insurance company will pay him the amount he has insured. As a rule, credit insurance companies will not accept the *whole* risk, but will undertake to pay only up to 75 per cent. of any loss suffered in the event of a debtor's failure. The object of making a trader bear part of the risk is to ensure that he himself exercises caution in granting trade credit (see Chapter 35).

The *price* risk is probably the greatest of all, especially in the raw material or commodity markets, the most superficial study of which will reveal examples of the rapidity and extent of the price movements to which the commodities dealt in are subject.

Speculation and Risk-Bearing.

Whilst it is true that speculation and risk-taking are so identified that the terms are used interchangeably, it must not be imagined that legitimate speculation *creates* risks—really the essential feature of gambling. On the contrary, it transfers existing risks on to the shoulders most capable of bearing them. The business of producing goods in advance of demand, from the very nature of the circumstances, inevitably involves heavy risks, which must be borne by some one. The system of market speculation enables a trader to transfer the price risk to a specialist market dealer.

Because of his capacity for making trade forecasts from trade reports and other economic signs, the successful market speculator is able to undertake apparently enormous risks and deal with them efficiently and economically.

Futures.

The rise of market speculators has resulted in the development of the " futures " system. Besides being bought and sold for immediate delivery, goods are dealt in for delivery in the future, in which case no money is paid and no goods are delivered *until the date for the completion of the contract.* The fact that a dealer has undertaken to deliver in the future a certain quantity of a commodity at a certain price does not mean that he has the goods *in his possession*; indeed, as a rule he has not the goods and, what is more, he has no intention of ever handling them. He merely attempts to forecast the future trend of prices, and undertakes delivery on terms which his forecast suggests will be advantageous. In other words, he guarantees to the buyer to provide him with a given quantity of a commodity in the future at a certain price and thus relieves him of the risks of market fluctuations. The advantages to the buyer are obvious. If he is a cotton manufacturer he knows immediately how much his future supplies of raw material will cost him, and, as he can estimate his other costs with comparative ease, he is able to fix at once his selling prices and enter into contracts

with safety. Relieved of all worry as to the trend of raw cotton prices, the manufacturer is able to devote himself to his true business of producing.

The dealer or speculator who has sold or bought for future delivery rarely undertakes the whole risk himself, for this would amount to basing all his dealings upon a single forecast. He has to make allowance for many factors which cannot be exactly assessed, and he attempts to cover himself as far as possible against possible miscalculation. Dealings take place between market operators themselves and, by this means, risks are transferred from dealer to dealer until they are fairly evenly spread over the whole market. Having effected a contract in futures, a dealer will usually lessen his risks by entering into a fresh contract with another dealer for part of the original contract. In all probability the second dealer will pass on some of the risk which he has assumed, and so on. In this way the losses and profits of speculation are spread over the market.

Though the parties to a "futures" contract usually have no intention of making or accepting delivery, yet this feature has come to be accepted as characteristic of all dealings in "futures." Contracts which do entail actual delivery at some future time are not uncommon, however, and are made both "on 'Change" and off. For example, a farmer wishing to fix, as soon as possible, the price he will receive for his corn, may sell it forward to an elevator company for an agreed price. Both parties enter into such a contract with the definite intention of completing it by delivery.

Future contracts are sometimes designated according to the month in which they are to be completed. Thus there are April futures, May futures, June futures and so on. Other types of the future contract which is to be completed by actual delivery are contracts "for shipment" and contracts "to arrive." In the former case the goods are sold to be shipped on a fixed date, and, perhaps, on a named vessel. A consignment which is sold for "20th April shipment" must be shipped not later than the 20th April. Or the quotation might be for "April–May shipment," which means that the consignment will be shipped on some day in either of those months. When goods are sold "to arrive," it is understood that the consignment is actually on the way, having been shipped in anticipation of sale, and that delivery will be effected on arrival.

Hedging.

Speculation in the great organised produce markets has made possible the development of a special form of risk transference known as "*hedging*."

As an example we will consider the case of a flour manufacturer, who buys grain at the current price as raw material for his mill. If the price of grain falls before his flour is marketed

he may have to sell the flour at a reduced price, since the price of flour usually falls in sympathy with the price of grain. In order to cover this risk, therefore, the flour manufacturer "hedges" his purchase of "*spot*" grain (*i.e.*, grain for immediate delivery) by making another contract to sell grain *in the future*; in other words he effects a *forward* sale. If, as he feared, the price of grain falls before his flour is ready for the market, he will lose on *his product*, because he will have paid more than subsequent prices warrant, but he makes a profit on *his "future" contract*, for when the time comes for completion of the contract by delivery he is able to buy "spot" grain at a price lower than that which he receives for his forward sale. Thus he is able to set off the gain on his future contract against the loss on his flour transaction.

The effect of a "hedge" is to ensure to the trader his normal trading profit and to eliminate any speculative profit or loss due to price changes. Hedging is commonly resorted to in circumstances such as the following :—

(*a*) An importer who buys goods to arrive, say, two months after the date of purchase, hedges by *selling a future* in such goods for delivery in two months; *i.e.*, he protects himself against a fall in the price of such goods. If when he comes to sell his goods, the price has fallen, he makes a loss; but this is offset by the profit on his futures transaction.

(*b*) A manufacturer who has orders for future delivery hedges by *buying a future in the raw material, i.e.*, he protects himself against a rise in the price of his raw material. If, when he comes to purchase his raw material for manufacture, the price has risen, he makes a loss on his manufacturing contract, but that loss is offset by his profit on the futures deal.

(*c*) In some trades the price of the finished product and the price of the raw material move in unison, *e.g.*, in the case of flour milling. In such a trade a manufacturer who is making for stock can hedge by *selling a future in his raw material.* If, when he markets the finished product, prices have fallen, he loses on his manufacturing transactions, but this loss is offset by the profit on his futures deal.

Dealings in futures are usually restricted to one or two ideal grades of the commodity, and thus it is very rare for actual delivery to take place. For example, in (*b*) above, a manu facturer may require, say, No. 3 grade, whilst all future dealings are in No. 1 grade. Clearly a delivery of No. 1 grade would be useless to him; and probably inconvenient to the seller of the future, but as there are no dealings in any other grade, the manufacturer, if he is to hedge at all, must buy a future of

No. 1 grade. This is an important reason why the vast majority of future deals are settled by payment of " differences": the market in futures is really only a system of insurance against price changes. The customary practice is for the party who stands to lose on the contract to pay the *difference* between the agreed future price and the spot price ruling at the date for fulfilment of the contract. In the above illustration, therefore, it would not have been necessary for the miller to go to the trouble of buying "spot" grain wherewith to effect delivery on his forward sales; instead, he would have been paid the difference by the dealer with whom he made the forward contract. Had there been no movement in the price of "spot" grain the miller would have made his customary profit on his flour and no differences would have been paid or received on the future contract. Finally, if the price of "spot" grain had risen, the miller would have been obliged either to buy grain at the enhanced price to complete his "future" contract, or, more probably, to pay the difference to the market operator. What he lost on his future contract, however, he would recover out of the higher price at which he could sell his flour.

It is comparatively rare for farmers to deal in futures. In many cases the future markets do not commence early enough for them to take advantage of any protection afforded. Moreover, future dealings by the farmer himself would be very speculative, as he cannot estimate with any certainty the extent of his crops. Hence, if he sold futures to the estimated extent of his crops, he would benefit in the case of a super-abundant harvest, but crop failure would involve him in large losses on his future sales.

In addition to the direct assistance given to those whose business it is to handle actual goods, hedges and futures are of indirect benefit, since banks will lend more readily against produce warrants where the relative shipments have been hedged. It has been estimated that nine-tenths of the cotton shipped from America is sold against futures, either in New York or in Liverpool. Consumers benefit as a result of hedging contracts, because the lessening of risk throughout the process of production enables business to be done on a smaller margin of profit.

The section of a produce market devoted to "future" dealing is known as a "*terminal*" market. Here, option deals of the type discussed in Chapter 44 in connection with the Stock Exchange can also usually be entered into.

QUESTIONS BEARING ON CHAPTER 20

1. Distinguish between a broker and a factor. (*R.S.A., Stage III.*)

2. What are the functions of a merchant ? What services does he render (*a*) to the producer, (*b*) to the retailer ? (*R.S.A., Stage III.*)

3. Explain concisely the functions of the broker in the wholesale trade, taking as an example the movement of any commodity in which you are interested. (*R.S.A., Stage II.*)

4. How would you distinguish between "speculating" and "gambling" ? (*C.A., Inter.*)

5. Explain the term "arbitrage." (*S.A.A., Inter.*)

6. Give some account of the conditions which favour successful speculation.

7. What, in your opinion, are the reasons which account for the persistence of speculation in spite of the fact that its consequences are sometimes harmful ?

8. What is meant by "hedging" in a highly organised produce exchange ? Who practises it, and why ? (*R.S.A., Stage III.*)

9. Explain what is understood by operating in "futures." Give instances where this practice obtains and describe the procedure and objects in regard to the various kinds of "futures" common to commercial usage. (*S.A.A., Final.*)

10. What are the advantages of an active market in "futures" in any commodity ? Refer to the work of one such market in this country. (*R.S.A., Stage III.*)

11. What is meant by "hedging," in reference to business in wheat and in raw cotton ? Give an example, with figures, of a "hedging" transaction. (*R.S.A., Stage III.*)

12. Is there any relation between "spot" and "futures" prices in the highly organised produce exchanges which shows itself with a considerable degree of regularity ? Discuss the bearing of your answer upon the practice of "hedging" in these markets. (*R.S.A., Stage III.*)

13. Explain the use of "futures" in cotton and wheat as a means of mitigating losses which may result from price fluctuations. (*R.S.A. Stage III.*)

CHAPTER 21

COMMODITY MARKETS AND TRADE ORGANISATIONS

COMMODITY MARKETS

THE produce markets, or "exchanges," for which this country is famous may be classified under two headings: "general" exchanges and "special" exchanges. On a "general" exchange a number of commodities are dealt in, whilst on a "special" exchange only one commodity is the subject of dealings.

Market Organisation.

The organisation of all the exchanges is almost uniform whether the market is general or special. In each exchange traders are brought together for mutual protection as well as for the transaction of business, and dealings are conducted on carefully defined lines so that they may be carried through with a minimum of formality and trouble. Membership of most of the exchanges is very exclusive, and its privileges are jealously guarded; a high standard of business morality is maintained, and the interests of the public are adequately protected.

The committees of the various exchanges do a great deal of useful work in governing the conduct of the markets. Careful attention is paid to the grading of the commodities dealt in, a process which is of extreme importance, for, as has already been explained in Chapter 19, it would be quite impossible actually to display all the produce bought and sold in a modern commodity market of any importance. In some markets only samples of consignments are displayed, whilst in others the whole world's production of the particular commodity concerned is marketed simply by grade. Some commodities lend themselves better than others to certain methods of marketing, and the nature of the commodity thus largely determines the procedure of the market.

Some of the great exchanges are represented by a central hall or mart around which are the offices of the members. Trading may be carried out in the hall, but in many cases the business is effected by dealers and brokers in private offices or over the telephone.

The best known markets for the sale of raw materials in London are :—

THE COMMERCIAL SALE ROOMS, in Mincing Lane, E.C., which is the centre for the sale of sugar, coffee, tea, copra, dried fruits, cocoa, spices, drugs, chemicals, feathers, hides and skins, and ivory.

THE CORN EXCHANGE, in Mark Lane, E.C., is the market at which dealers in corn, flour, and fodder, etc., meet.

THE BALTIC MERCANTILE AND SHIPPING EXCHANGE, in St. Mary Axe, E.C., is a world-famous centre for the marketing of grain, oil, oil seeds and general produce. It is important also for the amount of shipping business transacted there.

THE WOOL EXCHANGE, in Coleman Street, E.C., where wool is marketed by auction.

THE COAL EXCHANGE is in Lower Thames Street, E.C., and affords a meeting-place for those dealing in this very important source of heat, light and power.

THE TIMBER EXCHANGE is in Cannon Street, E.C., and is the chief centre for timber sales, although business is also transacted in Old Broad Street, E.C.

THE METAL EXCHANGE is in Whittington Avenue, E.C., the metals dealt in being lead, tin, copper and spelter.

THE PUDDING LANE SALE ROOMS are concerned chiefly with lemons, oranges, grapes and nuts.

THE HOME AND FOREIGN PRODUCE EXCHANGE, at London Bridge, is important for dealers in provisions such as bacon, eggs, cheese, lard and ham.

THE HOP EXCHANGE, in Southwark, is well known for the sale of hops, eggs, etc.

THE LONDON IRON AND STEEL EXCHANGE is held in Cannon Street, E.C., and, as its name implies, is concerned with the marketing of the products of our foundries.

THE RUBBER EXCHANGE, in Mincing Lane, E.C., is the centre for dealings in rubber. It is becoming an increasingly important exchange, owing to the growing world demand for rubber.

This by no means exhausts the list of markets responsible for dealings in commodities : there are, for instance, the Smithfield Market, for meat; the Billingsgate Market, for fish; the London Fur Exchange, in Garlick ; and Covent Garden, W.C., for fresh vegetables, fruit and flowers. Other very important exchanges are situated in the Provinces, as, for example, the Liverpool Produce Exchange. The localisation of the cotton industry is responsible for the situation of the Liverpool Cotton Exchange and the Manchester Cotton Exchange, and there is a Sugar Exchange in Liverpool.

The commodity markets of England are the oldest and

most important in the world, but there are many important exchanges on the Continent and in the United States of America. New York and Chicago have very important exchanges, particularly in corn and cotton, which are organised on much the same lines as the London Exchanges. On the Continent, however, many of the markets are controlled or supervised by the State.

Exchange Transactions.

The floor of the exchange is the meeting-place of members, who may be either dealers acting on their own account or brokers buying or selling for the account of their principals. Every transaction is embodied in a "*Contract Note*" (see below), which is exchanged between buyer and seller, but the note is not made out when the bargain is effected. At the time of dealing, as a rule, very little formality is observed. After one or two brief remarks a price is agreed, and the essentials of the contract are jotted down in a notebook. Sometimes a nod of the head as a sign of acquiescence to an offer is sufficient to close a deal. The contracts are made out later by the clerks of the respective dealers and are agreed by comparison.

CONTRACT.

42 Mincing Lane,
LONDON, E.C.
15th January 19....

Mr. F. Smith,
12 Poultry, E.C.

WE HAVE THIS DAY SOLD TO YOU ON A/C OF OUR PRINCIPALS

100 ½-boxes Valencias K.4, *ex* "Princess," 25*s*.
300 Trays Muscatels P.5, 5 Crowns, *ex* "Rose," 60*s*.

BROKERAGE, ½ per cent.
DISCOUNT, 1½ per cent.
PROMPT, 25th January 19....

BROWN & JONES,
P. Roberts.

If the corresponding notes do not agree, the bargain is confirmed or adjusted after discussion. If an agreement cannot be reached, the matter is submitted to an arbitration committee appointed according to the rules of the exchange, by whom a decision is given, usually in the space of a few minutes. Some such system of arbitration is essential to the efficiency of the exchanges, and members, realising the necessity for swift agreement, accept the decisions of the committee without demur. Usually they are bound by rule to agree to arbitration, and, as a refusal to abide by it would involve the loss of membership, disputes are quickly and easily settled

In general, transactions on "'Change" may be divided into two broad classes: (1) those for "*immediate*" delivery, and (2) those for "*future*" delivery.

Dealings in the "*spot*" market (*i.e.*, for immediate delivery) are concerned with existing stocks of produce. Samples of the stocks are examined at the warehouses or in the offices of brokers, or. perhaps, on the exchange itself, and bargains are concluded for immediate delivery of the goods. In appropriate instances the goods will be sold by grade without the production of samples. Much of this class of business is conducted in the private offices of dealers, or by telephone, and not in the market hall.

Mode of Sale: Auctions.

The actual mode of sale depends primarily on the nature of the commodity. Generally speaking, it may be stated that the ideal mode of disposing of goods is by dealing on 'Change. But this mode of sale is suitable only where the goods can be suitably graded and described, for it would obviously be impracticable for a selling broker to perambulate the exchange with a sample hide seeking a likely buyer, nor could he carry round a whole shipment of hides. Some other method of sale must, therefore, be adopted where the goods are unsuitable for sale by grade or description, as is the case with such commodities as tea, tobacco and wool. In the case of wool, for instance, difficulty has been experienced in grading. Each fleece contains portions of widely different qualities, while each producing area has its own special breed of sheep, and, even where two or more districts have the same breed, the quality of wool varies with differences in soil and climate. Similar difficulties are experienced in the case of tea. The problem has been solved by the institution of the *auction sale* where prospective buyers have the opportunity of inspecting and sampling the goods before they offer to buy.

To be suitable for sale by auction, the commodity must be in wide demand in order to attract a fairly large number of buyers, and supply should be highly concentrated in a few centres. The commodity need not be capable of a high degree of standardisation into grades, although *some degree* of standardisation is desirable: indeed, in the case of wool and tea, grading is enforced as far as possible.

The procedure adopted is the same in principle for all commodities. Sale catalogues are circulated among possible buyers, and an opportunity is provided for the inspection of samples and, in some cases, of the actual goods. Terms of sale, deposit requirements and brokerage are fixed by each trade association and must be observed if the contract is to be recognised by that association.

Some goods are sold purely by private bargaining—not by grade, nor by auction—and it will usually be found that such

goods are sold in this manner either because they are too perishable to be held over for an auction or because they have too limited a market to justify the arrangement of special sales, *e.g.*, precious and unique articles such as ivory. Nevertheless, it may be noted that even the most perishable commodities are frequently sold in local auctions, *e.g.*, fish, fruit, vegetables, butter and eggs.

Clearly, the grading and standardisation of goods is of the greatest advantage in determining the mode of sale. Where accurate grading is possible, the goods are suitable for exchange dealings, and what is more important, dealings in futures are possible. But it is essential in all attempts at grading that the grades shall be sufficiently accurate to prevent misunderstanding. Inaccurate or loose grading may, and probably will, lead to endless trouble and confusion and is worse than no grading at all.

CLEARING HOUSES

As a result of the development of dealings in "futures," the world's harvest of wheat or cotton is sold over and over again, but, through the various clearing houses run by the exchanges, purchases and sales by members are cancelled out so far as is possible and only "differences" are settled.

Produce clearing houses are of great service to members, and it may safely be said that without some such organisations the number of transactions now effected would be impossible. The chief objects of a clearing house are:—

(1) The elimination of all intermediaries in a series of contracts and the bringing together of the first seller and the last buyer.
(2) The settlement of differences caused by changes in prices.

Corn.

Most of the import business in grain is carried on at the Baltic Exchange with brokers acting as intermediaries between importers and merchants. Almost all the business is on the basis of *c.i.f.* contracts of grain "to arrive." Spot transactions, however, take place on the Corn Exchange in Mark Lane. As a rule, members of the latter exchange are also members of the former, and the procedure they adopt is to contract for cargoes of grain on the Baltic and sell "spot" on the Corn Exchange.

Wheat is graded according to its quality, which is determined largely by the country of origin and certain other characteristics, the most important of which is "*gravity*" (calculated in lbs. per bushel). But it is impossible to make a perfect classification, and frequently prospective buyers take samples.

The form of contract on the Baltic is settled by the London Corn Trade Association, and it usually includes the stipulation that the grain shall be of "*fair average quality*" (f.a.q.) of the

season's growth. The grading of wheat to establish this fair average quality is conducted by the London Corn Trade Association, whose representatives obtain samples of all cargoes in the recognised shipments. Thus, they will take samples of all cargoes of, say, April–May shipments and mix them. The resultant quality is accepted as "f.a.q." Since cargoes vary considerably, and contracts are nearly all on the basis of fair average quality, it is frequently necessary to adjust differences. Thus, an allowance is made to a buyer who has to take a cargo below the standard, but no allowance is made for cargoes above the standard.

All disputes on the Corn Exchange must be submitted to arbitration, for which purpose two arbitrators, who must be members of the exchange, are nominated, one by the buyer and one by the seller. The two arbitrators have power to appoint a third, and if their decision is not acceptable to either party to the dispute there is a right of appeal to the Appeal Committee of the Association. The process of arbitration is simple and swift and interferes only very slightly with business.

Wheat which comes from Canada or the United States is certified by the governments of those countries to be of a certain grade. Consequently no dispute can arise over cargoes from those countries, and the f.a.q. clause does not apply.

For grading purposes, this wheat is divided into a number of types which are known by distinctive names. The certificates issued by the American and Canadian governments deal with such qualities as "No. 3 Northern Manitoba," "Special No. 4 Manitoba," "Commerical No. 4," "American Red Winter," "Hard Winter" and "Northern Spring Duluth Certificate." Dealing by means of such descriptions is known as selling "by type." and quotations are given by the *cental* (100 lbs.).

On the Mark Lane Corn Exchange transactions are mostly for spot. The goods, which include beans, cereals, peas and seeds of all kinds, are sampled by cargo superintendents or at the warehouse. Samples of the cargoes which are on board ship, or in warehouse, are exhibited by the members at their stands, and on that basis transactions are effected, the terms being either cash in fourteen days, or cash against delivery order (see page 325). In the latter case the delivery order is handed to the purchaser to enable him to obtain the goods.

Spot goods may be rejected before 11 a.m. on the next market-day after sale when reasons for rejection must be stated; but forward goods (for example, goods sold to arrive) cannot be rejected, and differences in quality must be adjusted by allowances.

Cotton.

The most important cotton exchange in the world is that of Liverpool, which is the centre from which raw cotton is distri-

buted to the famous Lancashire mills, and is the only market for cotton "futures" in this country. Dealings also take place on the Manchester Cotton Exchange (which is important for yarn and fabrics) and in London. The absence of auctions distinguishes the sale of cotton from transactions in wool, tea and other produce, but perhaps the most important feature is the enormous amount of business done in "futures."

Cotton lends itself to an elaborate system of grading, according to differences in growth and quality. Transactions are carried out in terms of the various grades, which are indicated by the Liverpool Cotton Association by reference to the place of origin, in the following manner:—

(1) *North American:* Sea Island, Florida Sea Island, Upland, Orleans, and Texas.
(2) *Egyptian:* Egyptian brown, Egyptian white.
(3) *West Indian:* Fiji and Tahiti Sea Island, West Indian.
(4) *Brazilian:* Pernambuco, Ceara, Paraibo, Rio Grande, Bahia, Maranhao, Santos.
(5) *Peruvian:* Peru rough, Peru smooth, Sea Island.
(6) *East Indian:* Bengal, Surat.

The cotton is also classified as to quality in the following manner:—

(1) *North American*—

O.	= Ordinary.	Mid.	= Middling.
G.O.	= Good ordinary.	F.M.	= Fully middling.
F.G.O.	= Fully good ordinary.	G.M.	= Good middling.
L.M.	= Low middling.	F.G.M.	= Fully good middling.
F.L.M.	= Fully low middling.	M.F.	= Mid-fair.

Of these classes "ordinary" is the poorest, and "middling" is the average quality.

(2) *Egyptian*—

F.	= Fair.	G.	= Good.
G.F.	= Good fair.	F.G.	= Fully good.
F.G.F.	= Fully good fair.	Fine, and Extra fine.	

Brazilian, Peruvian, Indian and other growths are classified in a similar way.

The standards corresponding to the above classifications are fixed every year by the Liverpool Cotton Association acting in conjunction with the cotton factors at the various places of growth. By the rules of the Association contracts in futures may be made for one grade only—say, good middling—and at maturity of the contract the nearest quality available is delivered when an adjustment may have to be made in the price. Sometimes the matter may be submitted to arbitration.

The price of cotton is quoted in pence per lb. to two decimal places, for example, 9·56*d.*, a variation of, say, 0·23*d.* in the price being termed a variation of 23 points. American prices are quoted in cents to two decimal places.

Information relating to stocks of raw cotton, estimates of the harvest, probable demand and so on, are carefully collated, and market reports are issued daily. The whole situation is very carefully studied by dealers, for the market is extremely sensitive. and prices are subject to frequent fluctuations.

The following tables taken from "*The Commercial*" illustrate how prices are quoted :—

THE WEEK'S COTTON PRICES.

DAILY RECORD OF CLOSING QUOTATIONS.

	American Middling.				Egyptian F.G.F. Sakel.		
	Liverpool.			New York.	Liverpool.		Alex.
	Spot. d.	Mar. d.	May. d.	Mar. c.	Spot. d.	Mar. d.	Mar. t.
Jan. 15 .	9·56	9·26	9·35	17·37	14·45	13·84	27·88
Jan. 16 .	9·50	9·27	9·36	17·28	14·40	13·91	27·85
Jan. 17 .	9·49	9·23	9·32	17·39	14·45	13·91	27·81
Jan. 18 .	9·48	9·22	9·31	17·31	14·45	13·86	27·79
Jan. 20 .	9·43	9·17	9·27	17·33	14·45	13·85	27·74
Jan. 21 .	9·45	9·21	9·30	17·35	14·40	13·89	27·71
Jan. 22 .	9·47	9·22	9·31	—	14·55	13·90	27·72

EMPIRE FUTURES.

Jan. 22, 12.15 p.m. d.		Jan. 15, 12.15 p.m. d.	Jan. 22, 12.15 p.m. d.		Jan. 15, 12.15 p.m. d.
9·16	Jan.	9·22	9·19	Aug.	9·23
9·12	Feb.	9·17	9·15	Sept.	9·19
9·13	March	9·17	9·20	Oct.	9·24
9·11	April	9·15	9·19	Nov.	9·23
9·14	May	9·16	9·21	Dec.	9·25
9·14	June	9·12	9·23	Jan.	9·27
9·22	July	9·26			

SPOT QUOTATIONS.

Jan. 22. d.		Jan. 15. d.
9·47	Middling American . . .	9·56
9·17	Strict Low Middling . . .	9·26
14·55	F.G.F. Sakellaridis Egyptian .	14·45
7·30	F.M.G. Broach	7·40
8·35	F.G.F. Tinnevelly . . .	8·45
9·17	Fair Pernam	9·21

Tea.

Tea is sold by auction at the Commercial Sale Rooms in Mincing Lane, London, which is the greatest tea market in the world. Some large tea-blending firms import through Manchester, but the vast majority of the tea imported into England is sold in Mincing Lane. The produce is brought to England at the instance of the growers or their agents or of importing merchants, and is warehoused pending its sale.

The actual buying and selling of the tea is transacted almost entirely between brokers, selling brokers acting for the importers and buying brokers acting for the majority of purchasers. The auction sales are public, and there is a certain amount of direct buying; but quite apart from the advantage of employing the brokers' expert skill and experience, many purchasers prefer to remain anonymous.

The importer of a consignment of tea notifies his broker and commissions him to effect a sale. The broker must list the various lots and prepare a catalogue according to grades, weights and trade descriptions. For this purpose, and also in order to form an estimate of the prices which he ought to obtain for the lots, the broker procures samples of the tea from the warehouses in which it has been placed. Sampling is a necessary function of buying and selling brokers and of many merchants too; and for this reason the Tea Brokers' Association annually grants to brokers and other duly accredited firms authority to obtain samples.

When the selling broker has sampled the teas and estimated their values he prepares his catalogue and sends it out to his list of prospective purchasers. The catalogue contains full particulars of the packages, descriptions and weights, and mentions the warehouse where the tea is on show, where it may be sampled, and the date of auction.

The auction sales are held on regular days in the week—Java and other teas on Thursday, Indian teas on Mondays and Wednesdays, Ceylon teas on Tuesdays and sometimes on Thursdays also. As each lot is put up for sale, the buyers (who have already marked their prices on their catalogues), bid in competition. Bids, which are quoted in shillings and pence per lb., are advanced one farthing at a time.

After the sale the selling broker sends his principal a contract note stating to whom he has sold the tea and at what prices, and at the same time he sends to the buying broker a "*weight note*" containing a copy of the details on the warehouse warrant (see page 325), the price at which the sale was effected, the total amount payable, the deposit required immediately, averaging about £1 per chest (each chest usually contains about 1 cwt. of tea), and the amount remaining to be paid on or before "Prompt Day," generally four months later. When the buyer pays the balance of the purchase money he is given the warehouse warrant in exchange. Interest at 5 per cent. is allowed on his deposit, but if he leaves the tea in the warehouse after "Prompt Day" he becomes liable for rent.

The Central Tea Clearing House in Philpot Lane performs very valuable services and saves a great deal of time and trouble by acting as a depository of documents and as an intermediary through which accounts are settled. The Clearing House Committee arbitrates in matters of dispute between buyers

and their brokers; in other cases of dispute the matter is referred to two arbitrators, who must be members of one or other of the Tea Associations, and, if necessary, these two arbitrators may appoint an umpire to decide between them.

Wool.

Wool is another of the commodities which are sold by auction. It is marketed through several centres, of which London and Bradford are the most important. Since the larger proportion of imported colonial wool is sold at the Wool Exchange in Coleman Street, London, a description of the marketing process at this exchange will be sufficient.

There are generally six series of Colonial Wool Auctions held in London, but this number has been varied on occasions when the conditions of the market were unsatisfactory. Each series of auctions lasts from about two to four weeks. Australian, New Zealand, and other wools arriving in a British port at least eight days prior to the opening of any series are usually accepted (on the decision and approval of the Colonial Wool Merchants' Association) as being in time for inclusion in the series.

Special wool warehouses are maintained by the Port of London Authority and by private firms, where the importers arrange to have their consignments stored. The wools that have arrived in time for each series of auctions are entrusted to the constituent firms of the Associated London Selling Wool Brokers, who submit daily, during the sales, an aggregate of, perhaps, 10,000 to 13,000 bales.

The selling brokers obtain from the importers "sampling orders," which enable them to procure from the warehouses samples of the various bales. These they examine and then give instructions to the warehouses for the bales to be graded accordingly. The brokers can now prepare their catalogues on the basis of the samples and arrange the day of the sale. On the morning of each sale, the bales are on view to buyers at the warehouses between about 8.30 a.m. and 1.30 or 2 p.m. At 3 p.m. the buyers meet in the sale-room in Coleman Street and the sales begin. Bids are made in pence per lb. and are advanced in farthings until 15*d.* is reached, beyond which price bids of ½*d.* are allowed.

The day fixed for payment is known as the "Prompt," as in the case of tea sales, but the wool sale prompt is seven days after the date of sale. The customary terms of sale are net cash, and the wool must be removed from the warehouse within fourteen days. If the wool is not removed in time it is resold and the deposit of £25 per cent. is forfeited. The brokers receive 1*s.* per lot from the buyers in addition to a commission from the importers.

The following extract from "*The Commercial*" is illustrative of wool grading and prices :—

Peak Downs (Queensland Clip).

	Nov.–Dec.	Jan.		Nov.–Dec.	Jan.
Greasy—			Greasy—		
1st comb'g E .	17	13½	B'k'n E & W .	14	12
,, ,, ,, .	16½	13	Necks . . .	13	12
2nd ,, ,, .	17½	14¼	,, . . .	13	11¼
,, ,, ,, .	15½	12¼	,, . . .	13	*9½
,, ,, ,, .	13½	12	A pieces . .	12¼	9½
A combing E .	15½	11½	,, ,, . .	12½	9½
,, ,, ,, .	15½	11	1st bellies . .	13	10
1st fleece E . .	12	10–9½	,, ,, . .	13½	9
1st necks E . .	17½	14	1st weaners . .	16	13
,, ,, ,, . .	16	12¾	2nd ,, . .	16	12½
Broken . . .	15½	14	2nd ,, . .	16	11¾
,, . . .	15½	13	N'ks w'ners . .	14¼	12
,, . . .	14½	12¾	1st pes . . .	12	10¼

* Bid.

Metals.

The Metal Exchange in Whittington Avenue, London, is concerned with dealings in four metals only—tin, copper, lead, and spelter—and only smelted metals in ingots are dealt in, dealings being based on descriptions, such as "good soft lead," "standard tin" and "standard copper." The leading metal merchants deal (outside the exchange) in other metals besides the four mentioned, and give quotations in their weekly circulars and market reports. Meetings on the Metal Exchange are peculiar in that only a few people are present and the meetings last for only about eighty minutes, beginning at noon. Each metal is given a turn of about ten minutes, during which time the members, sitting in a circle, call out the prices at which they are willing to deal, and eventually transact business by bargaining.

TRADE ORGANISATIONS

Mention has already been made of various associations, such as the Liverpool Cotton Association, the London Corn Trade Association, and the Tea Brokers' Association, whose functions are chiefly to organise the marketing of the world's produce on efficient lines. These and other similar associations are of great service to the markets they control in standardising the forms of contracts and grades of produce, in settling disputes swiftly, and in guarding the interests of their members, and, at times, the interests of the public. Invariably they are jealous of the good name and reputation of their exchanges, and consequently they deal severely with defaulting and dishonest members.

In addition to this type of trade organisation there are many others whose purpose it is to promote commercial intercourse and development. They are so numerous that merely to list them in this volume would be impracticable. As an example may be quoted the Incorporated Association of Retail Distributors (I.A.R.D.), which obtains and collates all manner of useful information for its members. Quite recently the steel manufacturers of Britain, realising the desirability of instituting centralised selling for their output, formed the British Steel Export Association, which now acts as a selling agency for British steel. The association tenders for contracts on the basis of information received from members, and then allots amongst its members the contracts secured. Other important trade organisations are the Federation of Master Cotton Spinners and the Federation of British Industries (F.B.I.). The first functions in the cotton industry, but the second is of a more general nature and deals with a variety of problems affecting all classes of industry.

Functions of Trade Organisations.

Clearly the functions of trade organisations are many and varied. Much depends on the type of business which is catered for. It is possible, however, to classify them under certain heads :—

CREDIT INFORMATION.—It is absolutely essential to a trader who wishes to grant credit to another that he shall be able to ascertain the solvency and standing of his prospective client. There are in existence certain *Credit Information Bureaux* whose business it is to supply this type of information (see Chapter 26), but trade associations also are able to render valuable service to their members by acting as a sort of information "exchange," collecting the required type of information from some of its members and giving it to others. This information service is in a way more useful than the ordinary sources of information, since it is specialised to the needs of the particular industry or trade in question. It is of special importance in the export trade, for exporters have otherwise great difficulty in obtaining adequate information regarding prospective foreign customers.

TECHNICAL INFORMATION.—Another service rendered by the trade association in the case of manufacturers is the dissemination amongst its members of information regarding the latest methods of production, developments in costing and efficiency systems. By fostering the standardisation of statistical methods these associations are able to collate reliable statistics from information supplied by their members, and, in placing the statistics thus collected at the disposal of their members, to give them great assistance in their business.

RESEARCH WORK.—The associations also assist members by the maintenance of research work. Whilst the individual

members may be unable to afford the expense entailed by the research which is so essential to the progress of a *manufacturing concern*, the combined subscriptions of the members form a fund which may be used to finance the necessary work.

STANDARDISATION OF PRODUCTS.—This, too, is facilitated by the same means. Representing, as they do, the chief producers in each industry, the trade associations are able to encourage the introduction of standard grades and sizes of goods. The benefit accruing from the development of standardisation has been realised in recent years, and most industries are making vigorous attempts to foster the movement.

MISCELLANEOUS INTELLIGENCE SERVICES. — Yet another service is the provision of information to their members on such matters as methods of transport and packing, foreign customs regulations and overseas legal procedure. Finally may be mentioned the assistance given by these bodies to traders who seek income tax allowances from the Inland Revenue authorities.

Members benefit also in matters of publicity. Here again the combined fees or subscriptions form a fund which can be used either to promote a publicity campaign in this country or to send representatives abroad to study markets and to boost the goods of the industry. The "Eat More Fruit" campaign in this country furnishes a ready example of this type of activity.

Co-operation is the key of all such associations; in some cases it becomes more than mere mutual assistance and develops into actual co-operative selling and producing (as with the British Steel Export Association quoted above), or into price agreements (such as were explained in Chapter 10).

Certainly not least in importance is the attitude of trade associations in the matter of labour disputes. The trade association is an ideal medium for the expression of the opinions of employers on matters relating to employment. When the association is formed solely for the purpose of considering labour affairs, it is usually termed an "Employers' Association"; but its function remains the same. The employers in each particular trade are provided with a vehicle for airing their views, and the association is able to present the employers' viewpoint in the strongest possible manner and to bargain as a united body with the trade union or other representative of the workers.

CHAMBERS OF COMMERCE

A Chamber of Commerce is a voluntary association of merchants, financiers, manufacturers and others engaged in business, for the purpose of promoting and protecting the

interests of its members and of the trade of the country as a whole. Most of the chambers (and they exist in every town of importance) are affiliated to a central body which, to some extent, co-ordinates their work and assists them in co-operating with each other.

Chambers of Commerce are largely concerned with the collection and dissemination of information which is of interest to their members. They undertake enquiries regarding markets and issue valuable reports on the state of trade and industry. Members are able to obtain information on customs regulations, the completion of certificates of origin and so on. A statistical bureau is organised in which is classified all information likely to be of assistance to the members of the chamber, while many chambers have also commercial museums in which are displayed goods supplied by various manufacturers in the world's markets. Other functions are the maintenance of a high standard of commercial integrity among the members, the provision of economic information and legal and technical advice; the arbitration and settlement of trade disputes, and the making of suggestions and representations to the Government on matters affecting business interests. On matters of general interest common action is taken after discussion at a general meeting, and, when advisable, petitions or protests against the actions of governments, including our own, are presented. Much useful work has been done in standardising forms and contracts, and, in this work, the co-operation of foreign Chambers of Commerce and of the International Chamber of Commerce has been of great help.

The *London Chamber of Commerce*, with a membership of over 9000, is the largest in Great Britain and occupies a position of great importance and authority. Its Council of elected members includes the chairmen of the trade sections representing the principal London trades. These Trade Sections aim at protecting their respective interests and part of their work is to oppose the introduction of adverse legislation and to promote co-operation in the settlement of trade disputes.

The Chamber dispenses information to its members on such matters as foreign tariffs, the application of the *Merchandise and Trade Mark Acts*, regulations affecting commercial travellers and names of foreign and colonial agents. It also issues certificates of origin and commercial travellers' certificates. It publishes a monthly journal containing reports on various matters likely to be of interest to commercial men, has an employment bureau and organises a system of commercial education.

The various chambers of commerce are linked together by the *Association of British Chambers of Commerce* which was formed in 1860 with a membership of about 20 chambers. To-day, the membership embraces over 100 chambers situated

in the chief towns of Great Britain and 25 British chambers of commerce abroad.

The Association is managed by an executive council of about seventy members who represent the principal chambers of commerce throughout the country, and its work is carried on through various committees, which deal with finance and taxation, home affairs and transport, and overseas questions. These committees hold monthly meetings and report to the council, while the Association itself meets twice yearly. Its meetings are attended by delegates of each member chamber and are held chiefly for the purpose of discussing resolutions which have been drawn up from suggestions submitted by member chambers.

By reason of its widespread membership the Association represents very wide interests, including manufacturing, merchanting, shipping, banking and distributing. Its influence is such that its views are sought by the Government before any important measure affecting commercial or industrial interests is enacted.

The system of chambers of commerce in this country is linked with the international system by its representation at the annual conferences of the *International Chamber of Commerce.* Delegates are sent to these conferences to voice the opinions and desires of the movement in this country. The International Chamber of Commerce aims at freeing world trade from restrictions, and at improving the existing machinery of international trade in various ways, for example, by obtaining agreement on the interpretation of commercial terms.

QUESTIONS BEARING ON CHAPTER 21

1. What foodstuffs and raw materials are usually sold by auction on importation to this country? Why are they sold by auction? Where do such sales take place and who are the purchasers thereat? (*R.S.A., Stage II.*)

2. Briefly describe the conditions which have permitted trade associations concerned with the importation of certain raw materials and foodstuffs to determine grades of qualities and to standardise forms of contract, etc. Discuss the methods in these respects of any one such association. (*R.S.A., Stage III.*)

3. How is produce, as distinguished from manufactured goods, usually disposed of on the wholesale market? (*London Chamber of Commerce, Certif.*)

4. Distinguish between a produce exchange and an ordinary market or fair. What commodities are suitable for dealings on an exchange, and why? (*R.S.A., Stage II.*)

5. What class of goods are usually sold by auction? Describe the procedure connected with the purchase by auction of any class of imported goods. (*R.S.A., Stage II.*)

6. Explain briefly the organisation of the market for either raw cotton or wheat in this country. (*R.S.A., Stage III.*)

7. What commodities are auctioned on importation into this country? Explain why this method of sale is employed in these special cases. (*R.S.A., Stage III.*)

8. Why are some important commodities usually sold by reference to standard or grade while others are sold usually by sample? Mention a few of each class. (*R.S.A., Stage II.*)

9. Illustrate, by examples, how the high degree of organisation existing in certain markets facilitates the financing of the movements of the commodities handled in these markets. (*R.S.A., Stage III.*)

10. Define carefully the terms "market" and "price," and describe how a price level is reached in an open market. (*C.I.I. Fellowship.*)

11. Give an account of the work done by the Liverpool *or* the London Corn Trade Association. (*R.S.A., Stage III.*)

12. What do you understand by the following terms in regard to the delivery of goods:—

(*a*) Prompt; (*b*) Spot; (*c*) Forward?
(*C.A., Inter.*)

13. What do you understand by "spot" transactions and "futures"? To what form of goods do they apply and how are they carried out? (*C.A., Inter.*)

14. What are the chief functions of a Chamber of Commerce? In what way does such an organisation assist (*a*) individual traders, (*b*) the general commercial community? (*S.A.A., Inter.*)

15. In the merchandising of goods what are the advantages of standardised articles and graded qualities of commodities? (*C.I.I. Fellowship.*)

16. What imported goods are usually sold by auction on their arrival in this country? Trace the progress of one such commodity from the ship's side to the ultimate customer. (*R.S.A., Stage II.*)

17. What importance do you attach to the standardisation of contract forms and of grades of quality in the case of foreign trade in raw materials and food-stuff? What bodies or organisations usually perform this work? (*R.S.A., Stage III.*)

18. Compare and contrast the methods of marketing raw cotton and of raw wool in this country. Explain and comment on the differences. (*R.S.A., Stage III.*)

19. What are the advantages of an active market in "futures" in any commodity? Refer to the work of one such market in this country. (*R.S.A., Stage III.*)

20. Consider the relative place and functions, in modern economic activity, of associations of business men (*a*) according to locality; (*b*) according to trade. (*R.S.A., Stage III.*)

21. "The excessive cost of distribution . . ." Take one group of commodities, examine as far as you can the cost of distributing them from producer to consumer, and make suggestions for lessening this cost. (*R.S.A., Stage III.*)

22. What kinds of goods are sold by standard or grade? In the case of (*a*) corn, or (*b*) cotton, describe how the grades are fixed. (*R.S.A., Stage III.*)

CHAPTER 22

DOCKS AND WAREHOUSES

DOCKS

A COUNTRY such as ours, which depends so much upon its imports and exports and on its entrepôt trade, must necessarily possess large and well-organised docks for the berthing of ships from all over the world. Many of our docks are owned by public authorities, whilst others belong to private firms or public companies, and, on the whole, they are as well managed and as efficiently equipped as those to be found anywhere.

Types of Dock Ownership.

There are actually four types of dock ownership and management in this country :—

(1) PUBLIC BOARDS AND AUTHORITIES.—Characteristic of this form, which has largely superseded control by limited companies, is the Port of London Authority. Its officials are appointed by certain Government Departments or are elected by persons paying port dues.

(2) MUNICIPAL OWNERSHIP AND CONTROL.—The best example in this class is to be found in Bristol, where the municipally-owned docks have been very successful. There are certain advantages pertaining to this type of ownership: (*a*) Funds for the provision of the dock facilities may be borrowed on favourable terms since the loans can be backed by the whole credit of the town; (*b*) the docks can be subsidised should the income from dues prove inadequate; and (*c*) the municipality can, by contributing to the expense of the docks, reduce dock charges and encourage the trade of the port.

Against these advantages, however, there are a number of disadvantages. First, the controlling body is not necessarily efficient in dock management, with the result that inefficiency in this branch of its activities may result. Next, frequent changes as a result of municipal elections are not conducive to the continuity of dock policy. Finally, the election of municipal bodies may depend largely on their attitude towards economy, whereas savings in dock management may not be in the interests of the trading community. Judged from the point of view of profits earned, municipal ownership appears from recent experience to be the least efficient form of control.

(3) Railway Ownership.—The most important examples of railway-owned docks are to be found in Southampton, Hull, Grimsby and the South Wales ports. As a general rule, these docks show a very low return on the capital invested, but this does not mean that they are inefficiently managed. Indeed, railway docks are among the most efficient in the country. The dues are kept low to encourage traffic and any losses on the docks are made up by the increased traffic on the railways.

(4) Dock Companies.—There are very few docks to-day which are owned and controlled by private companies, although an outstanding example is to be found in the case of Manchester, where the docks are managed by the highly successful Manchester Ship Canal Company.

Traffic Considerations and Dock Planning.

In planning the construction and equipment of docks, the requirements of various kinds of traffic, including passenger traffic, must be taken into careful consideration, and, whilst certain areas must be reserved for some commodities, special appliances and machines must be provided for others.

In some ports the loading and unloading of vessels is undertaken by barges. Occasionally the method is adopted to reduce the draught of ships owing to the lack of sufficient depth of water at the quayside. In other cases, it is resorted to because quays and wharves are inadequate or occupied. Further, it is a convenient method to employ where cargo has to be transferred from one ship to another, or where a ship has to collect or discharge cargo at a number of wharves up-stream. Finally, historical causes have made for the continued use of barges in some ports. In London and Hull, for example, the lighterage industry existed long before the advent of closed docks, and when these were constructed under legislative sanction, the lightermen were able to get incorporated in the relative Acts of Parliament clauses giving barges free entry into and out of docks when they are engaged on lighterage work.

In other ports, as, for example, Glasgow, ships may be loaded direct from railways along the quays, or they may discharge their cargo into trains waiting alongside the berths. In the case of transit ports, large warehouses are erected to store imported produce in order that lots may be inspected and prepared for distribution either at home or abroad. Vast quantities of colonial produce are dealt with in this way in London.

Some ports are a considerable distance up river estuaries; others are on the open sea. Other things being equal, the former have a great advantage over the latter. Although there is little difference in the shipping freight as between an inland and a coastal port, traffic to the latter which is destined for an inland town has to bear the costs of road and railway

transport as well as freight, and the former vary closely with distance. Thus, it is cheaper to unload cotton intended for the Lancashire towns at Manchester rather than at Liverpool, because in the latter case the cotton would have to bear the higher cost of rail transport from Liverpool to Manchester.

The amount of traffic dealt with will depend on (*a*) the position of the docks and facility of access by rail or canal; (*b*) the amount of the dock dues relative to those charged elsewhere; (*c*) the nearness of rival ports and the class of facilities offered by them.

An adequate depth of water must be ensured alongside the quays and in some cases dredging may be necessary. Congestion is fatal in any dock, and there must therefore be sufficient clear water space away from the quays to allow vessels to await their turn without hampering others. It is necessary also to plan the dock so that vessels shall have no difficulty in running alongside the quay and getting quickly and easily away again. To deal efficiently with traffic it is usual to allocate part of the dock to exporting and part to importing: traffic for shipment is then run on to the reception sidings, whilst goods unloaded are dumped in a position that is convenient for their removal.

Traffic in certain commodities is so concentrated in some ports that docks have to be specially equipped for handling it. Certain docks are equipped with vacuum extractors to facilitate the discharge of grain into elevators, which are built alongside; the fish trade requires ice-chambers for temporary storage; the coal trade not only requires special appliances to handle the coal expeditiously, but also extensive sidings near to the docks for storage of the loaded trucks, because it is rarely possible to handle the coal immediately on its arrival at the dock side; again, very extensive areas are reserved for timber storage near some docks, while sawmills are built close at hand to deal as promptly and expeditiously as possible with the bulky raw material.

Docks and National Prosperity.

The existence of efficient docks has a vital bearing on national prosperity. Much of Britain's maritime greatness is due to the numerous well-equipped ports and docks which she has established on natural inlets and estuaries. Moreover, Britain's position in the centre of the land hemisphere, particularly between Europe and the Americas, led to her becoming the natural meeting-place of the products of these continents, while she naturally established herself as the distributing agency for the vast variety of products of her Empire.

All shipping is, of course, dependent upon inland transport systems for the collection and distribution of cargoes, and, since ports provide the connecting link between inland and overseas services, the efficiency of port equipment governs

directly the prosperity of the shipping industry. The increased size of ocean ships makes it essential that the size of docks shall be adequate for the berthing of vessels, and the handling equipment must be such as to enable ships to be cleared with a minimum of time and expense.

In this country, extensive alterations have in recent times been undertaken in the docks at London, Liverpool, Southampton and Glasgow in order that larger vessels might be accommodated without difficulty and handled with expedition. In undertaking this work, consideration has been given to the facilities offered by continental ports. One-eighth of our overseas trade is entrepôt trade, the profits from which are an important contributing factor to national prosperity, and if this trade is to be maintained in face of continental competition, we must ensure that our port facilities are as efficient and up-to-date as any to be obtained elsewhere. Recently, a mammoth floating dock has been constructed at Southampton in order that overhauling and repairs may be undertaken there on large vessels, which previously had to go to Hamburg and Antwerp for the purpose. At the same time big improvements have been made in hotel accommodation to attract tourist traffic.

The absence of high dues at British ports has had an important influence in diverting ships from continental ports. Moreover, some British ports impose lower dues than others with a view to attracting traffic; for example, at Harwich, which is the chief port between London and Grimsby, the L.N.E. Railway Company has made Parkstone Quay an entirely *free* quay, with the result that much continental traffic passes through the port.

In some cases the existence of ports is entirely due to enterprise by railway companies, which have been mainly responsible not only for their initial construction but also for their subsequent "feeding" and upkeep, as, for example, the ports at Immingham, Fishguard and Barry.

Apart from providing considerable employment in the loading and unloading of ships, the existence of an efficient port may also give rise to large manufacturing industries based upon imports. At Hull the greatest oil-cake mills in the world owe their growth entirely to the facilities offered for the import of oil seeds, whilst much of the development of the Tyneside and Teeside areas is due to the first-class harbour facilities at the mouths of the two rivers.

WAREHOUSES

Very often a consignment of goods arrives at the docks at a time when it is difficult to find "tonnage"—that is, available space on an outgoing steamer. Similarly, when a cargo arrives

in port it is not always convenient for the importer immediately to take the goods into his custody. In cases of this kind it becomes necessary to store the goods in a warehouse until such time as they are required. Likewise, in the home trade, a place must be found to house goods between the time when they are made and the time when they are required for use. Normally, of course, the manufacturer holds a stock of his products in his Finished Goods Store, and the retailer also holds relatively large stocks of goods. Nevertheless, neither retailer nor manufacturer ordinarily reckons to act as a warehouseman; this function is usually delegated to the middleman—the wholesaler. and, indeed, in some trades this holding of stocks is the wholesaler's chief business—a matter which is further considered in Chapter 28. Our present purpose is to consider the activities of the *public warehouseman* who does not trade in goods but merely takes care of them for their owners.

Public Warehouses.

The majority of public warehouses are situated close to the docks through which the relative commodities are imported, many of them, as we have seen, being owned by the dock authorities or by the wharfingers. The function of the warehousekeepers or warehouse owners is partly that of agents for the owners of goods and partly that of landlords. In the former capacity they take care of the goods entrusted to them and must exercise reasonable care to ensure their safety, whilst in the latter capacity they charge fees for the space which they let out The warehouseman has a *lien* on goods entrusted to him until his charges are paid; that is to say, he may retain the goods until he has received payment and may sell them after notice to the owner if his charges remain unpaid.

The Functions of Warehousing.

The importance of the part played by warehouses in the machinery of commerce is not always realised. Without them it would be impossible for many traders to hold the large stocks that are so necessary for the smoothing down of price fluctuations, for few traders could afford to lock up their capital in huge buildings such as are needed for storage purposes. Those warehouses which adjoin the docks (and these are by far the most important) are very conveniently situated for the movement of goods to and from ships, and for the storage of goods pending their transfer to the ultimate buyers or retailers. It would obviously be more expensive for a trader to transfer bulky goods from the docks to his own premises and thence deliver them to buyers, for this might well entail the movement of the goods twice over the same ground. Moreover, by having goods

delivered at and stored in different warehouses, traders can do a great deal to keep their stocks in close proximity to their selling areas. Thus, a merchant having his headquarters in Liverpool may import goods at London, Hull and Glasgow and warehouse them there for redistribution to his customers in Middlesex, Yorkshire and Scotland respectively.

Other advantages of the warehouse system spring from the fact that some commodities can be handled far more cheaply in bulk by the use of highly specialised apparatus than they can by hand. Thus, grain is moved by suction pipes, oil by pumps, and so on. Clearly, it is better for the importer to handle his goods with the aid of the efficient apparatus possessed by the warehouseman than for him to sink his own capital in such equipment. Furthermore, the movement of goods from a public warehouse is usually facilitated by the fact that it is situated in a position easily accessible by road or rail, and sometimes by canal. Very often there is standing room for railway trucks—when the warehouse has its own private siding.

When the goods are in warehouse they are easily available for inspection by prospective buyers, and the dock and wharf owners are willing to perform certain very useful services in connection with goods entrusted to their care. They are always willing to facilitate the taking of samples and the breaking up of large consignments into smaller parcels; to open and repack goods for Customs examination; to deliver them in whole or part to specified buyers in accordance with the seller's instructions; to advance money to the owner on the security of the goods when the goods are to be sold by auction; to prepare them for sale by arranging them in suitable "lots" under the guidance of the broker employed by the owner, and, when the lots have been made up, to make out a "weight account" showing the weights and numbers of the packages in each lot. It must be obvious that services of this kind can be performed only by one who has expert knowledge of the goods with which he is dealing, and it is for this reason that most warehouse owners specialise in certain classes of commodities.

Bonded Warehouses.

A *bonded warehouse* is one which is licensed to accept imported goods for storage before payment of customs duty (see Chapter 35). It is not proposed to consider here how customs duties are levied, but it will suffice to say that certain goods are subject on importation to a duty, and, ordinarily, the importer may not remove his goods from the docks until this duty has been paid. By storing his goods in a bonded warehouse, however, he may gain some control without paying the duty, and he can make delivery of small quantities of the

goods as he sells them merely by paying the duty on those portions which he desires to remove. In this way he is able to evade the loss of interest entailed in making a heavy payment of duty before he is ready to sell all the goods in bond.

The owners of goods warehoused in bond, as of goods in other warehouses, are allowed to perform certain operations which are necessary to make the goods suitable for consumption, or, possibly, for re-export. Where tea, for instance, is stored in bond, the owner may *blend* different varieties and pack them in packages or containers suitable for each particular market. The same applies to tobacco and to wines and spirits.

Other operations which may be carried out in bond in connection with wines and spirits stored therein are *racking*, *i.e.*, drawing off the liquor from the lees or sediment, or transferring the contents of a large cask into smaller ones, and *vice versa*; *bottling*, a term which explains itself; *vatting*, *i.e.*, mixing together the same brands of wines or spirits in order to strengthen the whole or to secure uniformity. In every case, however, goods in bonded warehouses are under the strict supervision of Customs Officers, and, for any interference with the goods, the permission of the Customs Authorities must be obtained by application on forms specially provided for the purpose.

Free Ports.

In many foreign countries the functions performed in this country by bonded warehouses are carried out by "Free Ports."

A Free Port is a strictly defined area, comprising docks and warehouses grouped round a port, within which area all goods are free of customs duties. Dutiable goods which are landed from the sea into a free port are (so far as the levying of duties is concerned) still on the sea, and no duties are payable on those goods unless and until they are moved outside the free area.

When goods are re-exported direct from the free port no duty is paid on them. Thus the free area is, in effect, an immense bonded warehouse, with the added advantages that the goods can move freely from hand to hand within the area, while inspecting, sampling and selling can be carried out freely without the trouble of paying duty or of giving security for the payment of duty.

In favour of this system it is claimed that it encourages entrepôt trade. This type of business is largely conducted on a narrow margin of profit, and it is claimed that in this country the inconveniences of our system of bonding and transhipment are a hindrance which is causing a continuous diminution in our lucrative entrepôt trade in several important commodities.

TRANSFERRING THE OWNERSHIP OF WAREHOUSED GOODS

Dock and Warehouse Warrants.

The documents most commonly used in connection with warehousing are known as *Dock Warrants* (as illustrated) or *Warehouse Warrants.* These terms refer to the documents issued respectively by dock and warehouse companies to persons depositing goods with them. A dock warrant is issued by a dock or wharf company only when all landing charges connected with the goods concerned have been paid, and when the freight thereon has either been paid or otherwise settled for. The warrants issued by docks and warehouses are identical in effect, if not in form. They usually state that certain specified goods have been entered in the books of the bailee, and that these goods are deliverable to the person named "or to his assigns by indorsement." The warrant also states the date from which rent will be charged.

When a single warrant is issued for a whole parcel of goods, it is usually termed a *Prime Warrant.* Such a warrant is issued, for example, to an importer who requires an immediate loan on the security of warehoused goods which have not yet been split up or otherwise prepared for sale. Approximate quantities only are shown in the warrant, and the warehouse authorities do not vouch for the quality of the goods specified.

Although a warehouse or dock warrant is a transferable document of title, and requires a 3*d.* stamp, it is not a negotiable instrument. Since the bailee of goods warehoused may be required to make delivery to a stranger on the strength merely of the depositor's indorsement of the relative warrant, he usually keeps a Signature Book in which to record the signature of all persons to whom warrants are issued. Needless to say, if the bailee hands over the goods on the strength of a forged signature, he is not thereby released from his obligation to deliver the goods to the order of the depositor. Moreover, if a warrant is lost the rightful owner may obtain delivery of the goods by giving the bailee an indemnity against the claims of anyone who might subsequently present the warrant.

Delivery Orders.

When it is desired to transfer the ownership of goods represented by a warrant, the whole of the goods may be transferred by indorsement and delivery of the warrant, or part only may be transferred by the holder's issuing a *Delivery Order* for that part and returning the warrant to the bailee with the indorsement, "*Deliver ...... bales* (or *bags*, etc., as the case may be) *against sub-orders*" He then receives the warrant back from

DOCK WARRANT. Rotn........*3916*........

Dock Lot *321*.

QUEEN STREET WAREHOUSES.

No. *K14173*. Date,..........*21st January*........19....

For any deliveries see back.

Stamp	
3d.	

WARRANT for.................................*Five bales Cotton*..................................
imported in the................"*Padua*"................Master................*Smith*....................
from...................*Alexandria*...................entered by................*James Brown & Co*.........
on the........*17th January*........19..........deliverable to..........*Arthur Wilson & Sons*..........
or Assigns by endorsement hereon.

Rent commences on the............*21st January 19*................and all other charges from the date of this Warrant.

Mark.	Numbers.		Weight.						Mark.	Numbers.		Weight.					
			Net.			Tare.						Net.			Tare.		
	Original.	Dock.	Cwt.	qr.	lb.	Cwt.	qr.	lb.		Original.	Dock.	Cwt.	qr.	lb.	Cwt.	qr.	lb.
A W S	*129*	*201*	*4*	—	*17*												
	130	*202*	*4*	*3*	—												
	131	*203*	*4*	*1*	*10*												
	132	*204*	*4*	*1*	*12*												
	133	*205*	*4*	*2*	—												

Ledger *A–C*. Fo. *329*.

..............*J. Cummings*................Clerk. ....*P. Q. Sturt*...............Warrant Clerk.

Additions, alterations, and amendments to this Warrant may only be made by the Company's authorised Officer.

the bailee marked with a note of the quantity delivered. It will be clear that in the absence of this procedure the warrant would give a misleading impression of the quantity of goods held in store.

A delivery order is a document of title to the goods specified in it, and, moreover, is a transferable instrument, although it needs no stamp. Special forms are used for goods stored in bonded warehouses (see Chapter 35).

Order No..................

F.B............
S.B............
D.B............
S.N. No. ......

DELIVERY ORDER.

Queen Street,
BRISTOL....................19......

To ....
Please deliver.........................to Messrs..............................
Ex ....
Rent and Charges free to......................................if incurred.

MARK.	QUANTITY.	

Signed............................

A person holding a delivery order may split up his holding and have the goods delivered to his own customers piecemeal by returning the order to the warehouseman with the indorsement, "Please deliver against sub-orders." He may then issue his own orders to his customers.

Although a delivery order (D/O), drawn to order, is transferable by indorsement and delivery, and although, according to the *Factors' Act*, 1890, it is a document of title to goods, it is only a *promise* to deliver, and is revocable. Delivery of the goods is, therefore, not complete until the warehouseman (the bailee) has informed the person named in the order that he holds the goods on his behalf.

Warehouse-keeper's Receipts and Dock Receipts.

Sometimes the owner of goods stored in a warehouse or in the hands of a dock company or wharfinger is given, not a

warrant, but a *Warehouse-keeper's Receipt* (or *Certificate*), a *Dock Receipt* or a *Wharfinger's Receipt*. Such a document is merely an acknowledgment of receipt of the goods: it is not a document of title, and no title to the goods can be obtained or transferred through it. The holder of such a receipt can, however, transfer the title to his goods by signing and issuing a delivery order requesting the warehouseman to deliver all or part of the goods to the person named therein, or to his order, or to bearer.

QUESTIONS BEARING ON CHAPTER 22

1. What is (*a*) a Dock Warrant, (*b*) a Delivery Order? In what circumstances are these documents used? (*London Chamber of Commerce, Higher Certif.*)

2. What are the functions of warehousing? Enumerate the different kinds of warehouses, and describe the nature and purposes of bonded warehouses. How is the ownership in warehoused goods transferred? (*S.A.A., Final.*)

3. What is the advantage of having goods stored in a bonded warehouse?

4. Explain the meaning and functions of (*a*) a wharfinger's receipt, (*b*) a warehousekeeper's certificate.

5. In what way are docks in this country controlled?

6. What considerations have to be taken into account in planning docks? Give some examples to illustrate how dock equipment differs according to the nature of the product handled.

7. Assuming that you have a consignment of valuable goods stored in a warehouse, explain the steps you would take in order to obtain an advance thereon from your bank.

8. Estimate briefly the importance of an efficient dock system on national prosperity.

9. Explain why bonded warehouses exist and outline the procedure for taking goods out of bond. (*R.S.A., Stage II.*)

10. What are bonded warehouses and their uses? (*London Chamber of Commerce, Higher Certif.*)

11. Describe, noticing the relevant commercial documents, the importation of a dutiable commodity which passes through a bonded warehouse in the process. (*R.S.A., Stage II.*)

CHAPTER 23

TRANSPORT

The development of our industrial organisation would have been impossible without a corresponding improvement in our transport system. For the factory system necessitates the gathering together at one centre of vast numbers of workers and huge quantities of raw materials, and it implies not only that the workers, once established at the seat of production, shall be clothed and fed, but also that the products manufactured from the raw materials shall be rapidly and efficiently carried away to the centres of distribution.

With the introduction of railways, many of the difficulties of transport disappeared, and such as still existed were gradually eliminated by technical improvements. In America the handling of bulky commodities especially has reached an extremely high stage of efficiency. For example, the petroleum industry was greatly hampered by the lack of a cheap method of transporting the crude oil until the pipe line solved the difficulty. On the railways, the tank car is specially constructed for receiving, hauling, and discharging oils, whilst for the seagoing trade specially designed tank steamers are used. In like manner the carriage of grain has been considerably facilitated by the introduction of the great elevators, capable of effecting marked economies in loading and unloading grain in bulk at a rapid rate and of storing vast quantities pending its transfer overseas or inland as the case may be.

It is in the movement of perishable articles, however, that the most remarkable improvements have been effected. Particularly noteworthy is the introduction of the refrigerator on ships and trains. The use of refrigerating appliances, by permitting the carriage of meat, fruit and dairy produce over thousands of miles, has solved the problem of turning to really profitable advantage the great agricultural spaces of North and South America and Australasia. Moreover, these new facilities have brought about the large-scale production of milk, butter, cheese and other dairy products, since large producers are able to secure from railway companies favourable terms which more than compensate for the distances between the places of production and those of consumption.

Over short distances refrigeration is not of such great importance, and its place is taken either by special devices or

by a rapid, frequent and efficient system of delivery. Nowadays *live* cattle are brought across the Atlantic in specially equipped vessels to be slaughtered on the banks of the Mersey; fish is distributed from Grimsby and other centres in specially equipped fast trains; flowers for the preparation of perfumes, etc., are transported by being frozen in ice or encased in blocks of wax, while the rapid service of cross-channel steamers has created a market in England for fresh flowers from France and the Scilly Isles.

RAILWAYS

State interference with industry has in most countries first been apparent in connection with the railways, since one of the principal factors making for this interference is the peculiar nature of railway construction.

In the first place, railways require a right of way, the acquisition of which often has profound effects on the value of the adjacent property. Moreover, powers have often to be obtained from Parliament to force the owners of property to sell.

Secondly, in order that the safety of railway workers and passengers shall be assured, some regulation of actual working methods is desirable. Thirdly, railways supply an essential public service which should be protected by the State in the interests of the community, and, in times of stress, they should be assisted in carrying out this function. Finally, there is a tendency to monopoly arising out of the peculiar nature of the service and the large capital involved in railway construction. Railways, if uncontrolled, could wield an arbitrary power over the community; and some form of State control is needed to ensure that their services shall always be at the disposal of all members of the community on equal terms.

Railway Rates.

Although prices generally are determined by free competition, this principle cannot apply in regard to railway charges, for independent carriers cannot run trains over the same lines and underbid one another, neither can a single line, without danger to the public, be operated by more than one company; duplication of lines, on the other hand, results in a waste of capital. Moreover, when railways compete at some points and not at others, the competitive rates tend to be reduced at the expense of the non-competitive ones; this brings about an excessive concentration of industrial undertakings in certain areas and prevents stability of rates. Partial competition of this type usually leads to agreements between competing lines for the regulation of rates and the division of traffic by "pools." But although these agreements are of great advantage to the public, they are not favoured by the law.

In the absence of free competition, railway rates must be fixed on an artificial basis, and at various times different standards have been applied :—

(a) MILEAGE.—The fixing of railway charges on goods according to the distance covered was not a success, for the expense of handling freight is the same whether the journey is long or short. Hence, if the standard rate were fixed sufficiently high to cover short journeys, it made the charges for long journeys too high.

(b) MOVEMENT AND TERMINAL CHARGES, *i.e.*, a combination of a charge to cover the expenses connected with the line in general and a charge covering terminal expenses at the stations. Each consignment of freight had to pay its share of the terminal expenses, plus a mileage charge proportional to the length of the journey.

(c) DIFFERENTIAL RATES charged according to what the traffic will bear. This is a sound method if it is rightly applied. Where an increase of business makes it profitable, rates are reduced, but if the increase of business which would follow reduction is small, they are kept high. The aim is always to increase the amount of traffic, hence rates must not be fixed so high as to discourage new traffic, nor so low as to fail to cover the additional cost incurred in dealing with it.

In fixing the rate, the considerations which have to be taken into account include (*a*) the value of the goods ; (*b*) the risk of damage or theft ; (*c*) the bulk of the goods carried in proportion to their weight ; (*d*) the expenses of handling and the method of packing ; (*e*) the quantity of business done ; and (*f*) competition of other means of transport.

The Railway Clearing House.

In this country a movement towards association for the elimination of competition and the maintenance of rates was stimulated by the establishment, in 1842, of the Railway Clearing House. Before this date great difficulties had been experienced with " through " traffic, where passengers or goods passed over lines belonging to two or more companies. The Clearing House overcame these difficulties by a complicated system of accounting, and, by ensuring the publication of rates, it had an indirect influence, as well as a direct influence, on competition, since under-cutting could thrive only on secrecy.

" *Through* " traffic arrangements involve an allowance for " terminals " to the sending and receiving companies, and the distribution of the balance of the rate charged to the customer among the various companies concerned in proportion to the respective mileages of track covered. Special advices to the

Clearing House show which company has received the money and when the House makes up its account periodically it transfers to the creditor companies the balance due to each. Allowances are made for the use of other companies' wagons, special arrangements being made by the Clearing House officials for the numbering of such wagons at all transfer points. The information supplied by the companies is thus subject to an independent check.

This elaborate organisation provided a common meeting-ground for the discussion of matters of policy, and resulted in a close union between the companies, which was evidenced by an ever-increasing number of agreements to avoid competition by the division of railway traffic.

Control of Railway Rates.

Railways in Great Britain are controlled by the *Railways Act*, 1921, which was passed to deal with the many problems which faced the railway companies when the State relinquished control at the end of the Great War. The machinery for making the Act effective was provided by the establishment of three Tribunals: the Amalgamation Tribunal (to bring about the amalgamation of the then existing lines into large groups), the Railway Rates Tribunal (to fix and control railway rates and charges) and the Wages Tribunal (to provide a mechanism for the settlement of railway wage questions).

For some time a complete revision and simplification of the existing systems of rates had been contemplated, and as the findings of the Rates Advisory Committee (classifying traffic under 21 headings), had been embodied in the Act of 1921, the Railway Rates Tribunal was instructed to begin the enormous task of settling standardised schedules of charges for each of the companies. The new rates agreed between the companies were sanctioned by the Tribunal in July 1927, and became operative on 1st January 1928. These rates are subject to the 1921 Act, which provides that "*no variation either upwards or downwards shall be made from such authorised charges, unless by way of an exceptional rate or an exceptional fare, granted or fixed under the provisions of this Act.*"

The standard charges were calculated to yield a standard net revenue equal to the total net revenue for 1913, plus interest on capital brought in since that date. The charges are periodically reviewed by the Tribunal, and in the event of there being any excess of profits over the standard, the excess is to be distributed as to 80 per cent. in reducing charges, and as to 20 per cent. to the company as profit. The standard revenue will then be increased by the amount of the 20 per cent. Up to the present there has been no probability of an excess of profits, as the railway companies' profits were adversely affected by the trade slump, accentuated by road transport competition.

Powers of the Tribunal.

Any person who objects to the rates as fixed may appeal to the Tribunal, which has power to determine any questions relating to the following matters :—

(*a*) The alteration of the classification of merchandise.
(*b*) The variation or cancellation of through rates.
(*c*) The institution and the alteration of group rates.
(*d*) The amount to be allowed for services in connection with private sidings.
(*e*) The variation of tolls payable by a trader.
(*f*) The amount to be paid for services for which no authorised charge is applicable.
(*g*) The reasonableness or otherwise of any conditions regarding the packing of articles specially liable to damage in transit or to cause damage to other merchandise.
(*h*) The articles which may be conveyed as passengers' luggage.

Appeal from the decision of the Tribunal can be made to the Court of Appeal on a question of law, but not on a question of fact.

The Act of 1933 has placed another duty on the Tribunal, namely, the approval of suggested " agreed charges "—see below.

Exceptional Rates and Agreed Charges.

One of the main principles of the Act of 1921 was that railway companies should not be allowed to abuse their monopolistic powers by granting undue preference to one trader as compared with others. The standardisation of rates was intended to uphold this principle, but it was realised that in some cases, *e.g.*, where a trader sent his goods in bulk, it was desirable that the railways should be allowed to grant special rates. Accordingly the companies were empowered to quote "*exceptional rates*" to a customer, but to prevent unfair discrimination, it was provided that every exceptional rate granted should be published and made available to all persons who consign the same goods under similar conditions.

The growing competition of road traffic had so depleted railway traffic receipts that, in 1933, following an enquiry into the position of the transport industry, the *Road and Rail Traffic Act* was passed. Part II of this Act introduced a new system of "*agreed charges*," whereby a railway company is enabled to fix special charges with individual traders, either for a definite period, or without restriction, provided the approval of the Railway Rates Tribunal is obtained to the figure and to the conditions. Any trader (or group of traders) who considers that his position will be detrimentally affected by the agreed

charge may oppose the application for approval. In considering this, the Tribunal will have particular regard to the effect of the agreed charge on (*a*) the net revenue of the company, and (*b*) the business of the trader objecting. If the charge is approved, it will remain in force for the period fixed by the Tribunal, but after twelve months any person interested may apply to the Tribunal to have the charge withdrawn.

The introduction of these agreed charges was widely opposed on the ground that small businesses would suffer as a result of the special rates which would be granted to their large competitors. Much of the opposition was removed, however, by the inclusion of a provision that any trader who considers that his business will be, or has been, detrimentally affected, may at any time apply to the Tribunal for a charge to be fixed for the carriage of his merchandise of the same description by the railway company with which he contracts for its carriage, whether or not this is the company making the agreed charge. Such an application may, if it is convenient, be combined with an objection to the application for approval of an agreed charge.

The scheme relieved the railway companies of the disabilities imposed on them by the *Railways Act*, 1921, in the particular case where that relief is necessary to enable them to retain or secure the traffic. If the provision is generously interpreted from the point of view of railways, it will permit them to charge rates as low as, or lower than, road charges for competitive traffic, without prejudice to their right to carry non-competitive traffic at the higher standard or exceptional rates.

TRANSPORT BY ROAD

Road transport presents in every respect a strong contrast to railway transport. The latter provides for the construction and maintenance of its own road out of its traffic receipts, and the railway users have ultimately to pay all the expenses involved, including interest on the capital invested. Road users, as such, pay little or nothing for the capital involved in the track, and very little for its maintenance, yet road construction requires an enormous amount of capital, the bulk of which is provided out of the national exchequer, *i.e.*, by taxation of the community in general.

Advantages of Road Transport.

Road transport possesses certain definite advantages over other forms of transport. The first and greatest advantage of the road carrier over the railway is that he pays very little for the maintenance and improvement of his track. (The taxation revenue from motor vehicles, of which commercial vehicles contribute only about one-third, amounts to only

one-third of the road maintenance costs.) On the other hand, the railway companies must incur very heavy annual expenditure on the maintenance of their track for which they alone are responsible. This is an important item to be taken into consideration when the relative positions of rail and road transport have to be estimated. Secondly, since vehicles need not run to scheduled time, road transport may in some cases be more speedy than railways. Thirdly, the fact that goods can be loaded direct on to a vehicle and carried to their destination without further breaking bulk makes for convenience of handling, besides reducing the risk of damage, especially to fragile goods and to such goods as flowers and vegetables. Fourthly, the absence of intermediate loading charges and delays makes for cheapness. Fifthly, the intricate network of roads permits flexibility of service since goods can be picked up and transported almost anywhere. Finally, since road vehicles are self-contained there is no need to wait for a large consignment before a journey can be begun, and as road transporters, unlike the railways, are not "common carriers," they have the advantage that they can choose their goods. Moreover, so long as their units are not too large they have little difficulty in obtaining return loads.

Disadvantages of Road Transport.

The main disadvantages of road transport are the lack of reliability owing to the possibility of breakdowns in out-of-the-way places, and the difficulty in obtaining return loads. This latter drawback can be overcome, however, by the establishment of provincial freight exchanges. The fact, too, that road transport does not run to schedule, although it is an advantage in some respects, is also a factor tending towards unreliability.

It is in the sphere of bulky long-distance traffic, however, that railway competition is most strongly felt by the road transport undertakings, and on the whole it would appear that the railway retains its superiority in long and heavy hauls. This superiority it owes to a variety of factors of which the most important are: (*a*) less power is required (per ton) for a train than for a road vehicle; (*b*) there is a degree of wasted labour in connection with road transport for two men are required to manage one lorry, whereas a train carrying a load many times as heavy can be run with only three men; (*c*) men in charge of lorries on long-distance traffic have often to be fed and lodged *en route*. Even here, however, the roads can in some cases compete successfully with the railways. Thus, in cross-country traffic, the carriage of goods may take longer by rail than by road, and, especially in the case of goods of high value, the higher charges of the road vehicle may be warranted.

Road Transport by Private Traders.

Unlike other forms of transport, carriage of goods by road is undertaken largely by individuals for their own benefit. Manufacturers, wholesalers and retailers have entered the sphere of road transport and run their own vehicles. The manufacturer finds it more convenient to carry his goods direct from factory to retailer (witness the streams of brewers' drays which are commonly seen on the road); the wholesaler finds that he can cut transport costs by maintaining a fleet of small vans, each of which can cover the whole district in a morning, whilst road delivery by retail traders becomes more common every day. For retail delivery purposes the fleet of motors is easily the most economical unit, yet to-day the single van is usually the unit, since few firms can afford to own a fleet. To overcome this disadvantage, it has been suggested that firms in the same district should combine for transport organisation, but it must be remembered that many firms regard their motor vans as part of their sales' organisation: the van is used for advertisement, and the drivers act as canvassers.

Classes of Road Transport Undertakings.

Besides the numerous businesses which deliver their own goods by road, there are several types which specialise in road transport alone. These road carriers, as they are called, may be classified as—

(*a*) Local Carriers—acting as connecting links between small villages and neighbouring towns.
(*b*) Public Carriers—including such well-known concerns as Carter Paterson, Pickford's and Sutton's.
(*c*) Special Carriers—who restrict their operations to particular trades, such as the meat and fish trades.
(*d*) Jobbing Carriers—forming a not insignificant class of small men, each owning one or more lorries, who carry any class of goods. They range from the man who carries heavy goods from Birmingham to London to the local man who does small removals.

Future Prospects of Road Transport.

From an examination of all relevant factors it would appear that the future development of road transport is assured, especially for the following purposes:—

(*a*) Short light hauls, where railway terminal charges are relatively high;
(*b*) Swift collection of perishable goods, *e.g.*, fruit, flowers, ice and food;
(*c*) Collection and delivery from door to door and where frequent handling is undesirable;

(*d*) Frequent deliveries to isolated districts by large firms—particularly those who value the opportunity for publicity.

Road Transport by the Railways.

In January 1921, the Minister of Transport appointed a committee " to enquire and report whether it is desirable that the railway companies should have general or limited power to carry goods by road, and, if so, what, if any, conditions should be attached to the exercise of this power."

The railways desired such powers so that they might win back some of the traffic which they had lost as a result of road competition. They urged in support of their claim that the traffic lost by them was mainly of the most remunerative class, *i.e.*, goods of relatively high value which could be easily loaded.

The recommendations of the Committee that the railways should be given the required powers were eventually put into effect, and in 1928, by the *Railway (Road Transport) Act*, the railways were given limited powers to employ their own road vehicles.

The Road and Rail Traffic Act, 1933.

Despite the new powers given to the railways, the problem of road and rail transport remained of great importance. The losses of traffic by the railways, the increasing number of commercial road vehicles, and the steadily mounting cost of road maintenance necessitated some enquiry into the problem; hence the appointment in April 1932 of the Salter Committee on Rail and Road Transport.

The recommendations of the Salter Committee were largely embodied in the *Road and Rail Traffic Act*, 1933. This Act, which was divided into three parts, introduced a system of licensing for road carriers, and gave the Minister of Transport wide powers to make regulations for the control of road transport. Part I of the Act dealt with road transport, Part II with railway transport (introducing the system of " agreed charges "), and Part III provided for the setting up of a Transport Advisory Council, representative of all interests, to advise the Minister of Transport in his functions relating to the facilities for transport and their co-ordination.

Part I provides that a person using a mechanically-driven vehicle to carry goods by road (with certain minor exceptions) must obtain a licence. Three classes of licence are issued: *A* licences to those whose main business is that of road hauliers; *B* licences to those who use their vehicles partly to carry their own goods and partly to carry goods for reward; *C* licences to those who carry only their own goods. The licensing authority, the chairman of the Area Traffic Commissioners set up by the

Road Traffic Act of 1930, must grant all applications for *C* licences and all applications in respect of vehicles, or of an equivalent tonnage of vehicles, which were in use during the year ended 1st April 1933. He can refuse licences only to haulage contractors for vehicles *additional* to their existing fleet, and to persons newly setting up as haulage contractors.

In considering the latter types of application, the authority must take into account objections lodged by other hauliers, and must also consider the interests of the public generally, as well as those of other transport undertakings. The authority may call for particulars relating to: (1) the business of the carrier; (2) the rates charged by him; (3) any agreement or arrangement he may have with other carriers; and (4) any financial interests held in his business by other carriers. He may attach to the licences any conditions which he considers desirable.

The Act empowers the Minister of Transport to formulate regulations controlling the conditions under which licence holders may operate, *e.g.*, he may regulate the hours of work, and may appoint inspectors to examine the condition of the vehicles and to ensure that they are maintained in a serviceable condition. Every licence holder must maintain a record of the hours of work of his employees and of the journeys done by his vehicle, and these records may be inspected by the licensing authority.

It will be seen that the effect of this part of the Act should be to restrict competition among haulage contractors, and lead to increased charges. This, in conjunction with Part II, which extends the powers of the railways to quote competitive rates, should strengthen the competitive position of the railways. But the Act does not alter the fact that the road operator is free to restrict his competition to the most profitable traffic. Hence road transport will continue to attract the "cream" of the traffic, and the unsatisfactory distribution of traffic will remain until some more radical action is taken.

Road *v.* Rail.

It is exceedingly difficult to reconcile the conflicting views on this subject. It seems only fair that the road transport industry should maintain its own permanent way—the roads—and should not expect to be subsidised in this connection from national or local taxation. But the needs of industry, too, must be considered. Any raising of transport costs is bound to lessen the competitive power of industry in the world's markets. On the other hand, it must be admitted that railways are absolutely indispensable to the well-being of the country, and should, therefore, be enabled to run on a paying basis. There is also the congestion of the roads to consider.

The question which lies at the root of the problem is that

of co-ordination of the industry as a whole, *i.e.*, whether or not the State should interfere in the industry. The railways are subject to fairly stringent regulations, imposed to ensure safety, proper conditions of working, etc. Road transport, however, had before 1933 been free from such restrictions.

In many quarters a policy of non-interference by the State is favoured, but it seems that in the case of railways some regulation in the interest of public safety *must* be imposed. Equally strong arguments can be advanced for the regulation of road traffic. With the steadily mounting toll of road accidents, and the congestion of traffic in many places, these arguments gain added force.

Against co-ordination, it is argued that State interference is unnecessary, as public demand directs the resources of the community into the most serviceable channels. It is said that the displacement of one service (the railway) by another (the road) may cause some wastage, but that that wastage is inevitable in economic progress ; that it is merely one of the costs of progress, and that, in the long run, the community must benefit from a more efficient service. It is also contended that regulation destroys free competition and thus retards progress.

These arguments assume, of course, that public demand is consciously directed to the most efficient service ; but the facts are that, in practice, public demand is unconsciously and unthinkingly directed, and that it is frequently misguided and unintelligent. It is unthinkable that what is, in many cases, mere blind prejudice should be allowed to hold up schemes of reorganisation. Where several sources of supply are available to meet a certain demand, enormous economies can be effected by planning a co-ordinated service between the different sources. For example, to send simultaneously a tram, a bus, and a train between the same points, all nearly empty, is wasteful. It is more economic to send one only. That is what might be done, and is done, where transport is co-ordinated.

Further, with co-ordination under a unified control, no particular form of transport would seek to steal traffic from another, but each would concentrate on carrying, at the least cost, the kind of traffic for which it was best suited. Lack of co-ordination also means that there is redundant capital in the transport industry, and the community suffers by having to pay high rates, for both rail and road transport, so as to ensure for all the capital involved what is regarded as a reasonable return. A unified system would devise methods to eliminate redundant capital without putting the burden on particular sections of the community.

Co-ordination of transport is the problem of rationalisation of industry under another name. Just as it has been found necessary to rationalise industry, so it is being found essential to co-ordinate the transport systems.

INLAND WATERWAYS

Included in the term "inland waterways" are *natural* waterways, that is, naturally navigable rivers, and *artificial* waterways, which consist of canals and canalised rivers. Sea canals such as the Panama and Suez canals are not included, nor are great lakes, since these are navigated by ocean-going ships and therefore give rise to problems which differ fundamentally from those of inland transport.

Advantages and Disadvantages of Transport by Canal and River.

The advantages of inland water transport may be summarised as follows :—

(1) Cheapness.—The transport of goods by canal or river is cheaper than by railway when the points of despatch and of discharge are both on the waterside and no added services are necessary, but the advantage may be lost entirely by the addition of tolls, cartage to and from the waterway, or cost of collection and delivery.

(2) Carriage in Bulk.—Goods such as bricks, timber, coal and sand can be carried in greater bulk than by road or railway. For bulky goods of this kind, water transport is definitely the cheapest.

(3) Facility of Access.—Frequently, consignors can load goods from their own wharves directly on to barges, whilst consignees can have goods discharged directly on to their own wharves.

(4) Safety from Loss or Damage.—The absence of shaking and jolting on inland waterways enables fragile goods, such as glass, to be carried without danger of damage.

(5) Absence of Congestion.—Canals have a very great capacity for traffic. The possibility of delay through congestion is very much less than on the railways.

On the other hand, canal or river transport is attended by several disadvantages of which the following are the most important in this country :—

(1) Slowness and Uncertainty.—This necessitates the holding of larger stocks and the tying up of capital; the use of motor barges has tended to improve this to some extent.

(2) Limited Area Served.—The canals in this country serve only a very limited area.

(3) Water Supply.—In winter, ice frequently blocks traffic, while in summer a prolonged drought may result in a serious fall in the depth of water.

(4) Size of Barges Limited.—The capacity of the barges using the canals is limited by the size of the locks that have to be passed.

(5) Unsuitable where Small Stocks Held.—Canals are unsuitable for the general nature of British trading, since traders hold small stocks, replenished promptly by fresh supplies.

Present Condition of British Canals.

Most of the canals of the British Isles were cut during the early years of the Industrial Revolution, but their development was checked by the advent of the railways, which bought up many canals and allowed them to fall into ruin.

Even the few canals that have been kept in use need modernising. At present they suffer from the drawback that they are of varying width and depth; this prevents the use, where through traffic is concerned, of any but the smallest barge which can effectively pass through the locks on all the canals.

Our canals are chiefly used for carrying cheap, bulky materials—*e.g.*, coal, iron ore, timber and salt—where speed is not essential and where low cost is the chief factor. To be remunerative, canals must connect industrial districts with the markets for their products, and the expense in getting materials to the barges must be reduced to a minimum. In this country only a few canals fulfil the necessary conditions, and of these the following are the chief:—

The Manchester Ship Canal.—This canal is 35½ miles long, takes ocean-going ships up to 11,000 tons and having a draft of 28 feet, and has only four locks. It is therefore in a class by itself, enabling ships to unload at Manchester instead of Liverpool. It has made Manchester the fourth British port, and serves the great Lancashire industrial areas.

The Aire and Calder Navigation is the most prosperous canal system in the country. It is used chiefly for carrying coal from the Yorkshire mines to Goole and to the Humber ports.

The Trent and Mersey Navigation (including canals on the River Weaver) owes its importance to the fact that it links the potteries and the "Black Country" with the Mersey, and also Nottingham with Hull. It is used by the potteries for importing Cornish china-clay (kaolin), Lancashire chemicals and Cheshire salt, and it enables Nottingham goods to reach the sea for export more speedily than by rail.

The Shropshire Union Canal is owned by the London, Midland and Scottish Railway. It links the agricultural plain of Cheshire with the industrial region of Birmingham and Wolverhampton, and has a sea outlet at Ellesmere Port on the Mersey.

The Birmingham System is a network of canals serving local traffic. It suffers from the drawback of having 216 locks in 159 miles of canals.

The Grand Junction Canal connects the Thames and the Trent, *via* Brentford and Paddington Basin, Watford, Wolverton, Leicester and the Soar.

The Leeds and Liverpool Canal runs through the Aire Gap in the Pennines to Blackburn, Burnley and Skipton.

Canal Rates and Tolls.

Canal charges are subject, like railway charges, to classification. In many cases the schedules used by the canals have been based on those employed by the railways, with modifications to meet special circumstances.

We have seen that the whole field of classification of traffic and the fixing of railway rates has been revised under the provisions of the *Railways Act*, 1921. It now remains for the Railway Rates Advisory Committee to undertake work of a similar nature in regard to canal traffic. Until this is done, however, canal charges remain based on the provisions of the *Railway and Canal Traffic Act*, 1888, and subsequent legislation, which permitted certain increases to be made. Maximum rates and charges are fixed for different classes of goods and are based primarily on the principle of charging what the traffic will bear.

An interesting feature which distinguishes canal rates from railway rates is the fact that the former "taper" more quickly than the latter. By the "tapering" of rates is meant the system of reducing charges for carriage as the length of haul increases. In the case of railways it was provided that a certain rate should be charged for the first 20 miles, a lower rate for the next 30 miles and a still lower rate for the next 50 miles. After the first 100 miles the remainder of the journey was charged uniformly at a still lower rate. With canals, the distances for which the specified rates apply are shorter, *i.e.*, 30 miles as compared with 100 miles in the case of railways.

This system of tapering has led to much complaint where through traffic over a large number of short canals under different ownership is concerned. Thus, it has often occurred that goods which have travelled 30 miles on one canal, and should therefore be entitled to the lowest scale for the remainder of the haul, are passed on to another canal where the second canal company charges the same rates as if the traffic had originated on its waterway.

OCEAN TRANSPORT

Ocean-going ships may be divided into two classes according to the way in which they work. Those which have no set routes or times but go whenever and wherever they can find cargo are

known as *tramps*, whereas those which follow defined routes with fixed places and times of call, and must make their journey whether or not they have or expect to get a full cargo, are known as *liners*. Liners are mainly mail and passenger boats, and carry a relatively small amount of cargo: the tramp, on the other hand, is essentially a cargo boat, but it has to some extent, in recent years, been replaced by the large *cargo liner*, *i.e.*, the large ocean-going cargo vessel which has some accommodation for passengers.

In the case of the liner the unit is the *fleet*, whereas in the case of the tramp it is the *single ship*. The liner sails whether or not it has a full cargo, but the tramp will sail only with a full load. When a tramp is chartered, the contract usually stipulates for a "full and complete cargo," and if this is not available the charterer will have to pay "dead freight," *i.e.*, freight for the excess capacity which he fails to fill. Hence, the tramp controls rates for *bulk traffic*, while the liner controls rates for *small consignments*. The tendency nowadays is for the normal trade demands throughout the year to be met by the cargo liner, while seasonal or unusual traffic is left to the tramp.

LINERS.—Originally it was the practice in this country for a steamship company to work only one route, but the great disadvantage of this system is that traffic on any particular line is rarely constant throughout the year. The *Multiple Line* (where one company owns ships on several routes) overcomes this difficulty to a great extent by making possible the transference of ships from lines of light traffic to lines of heavy traffic, so effecting more economical working through compensating routes. The competition of the tramp has necessitated a change in British organisation, but it has resulted in the growth of the *holding company* rather than the multiple line. In this way the same end has been secured: the holding company acquires controlling interests in several shipping companies, arrange interlocking directorates and common agents, and organises the collection of information regarding trade and cargoes.

TRAMPS.—In contrast to liners, tramps are owned by some hundreds of different companies, each possessing one or more ships, so that competition for freight is very keen. The tramp may make a large profit in a very short space of time and work afterwards at a loss for quite a long while. Its rates are determined purely by bargaining, and the fixing of freight rates by agreement is practically impossible. Unlike the liner company, the tramp owner rarely makes his contracts far ahead.

Control of Shipping.

Owing to the ease of entry into the shipping industry and the consequent keenness of competition therein, ocean transport

is the most difficult of all forms of transport to control. But some regulation is essential, and in this country it is achieved through the Marine Department of the Board of Trade.

REGISTRATION OF SHIPS.—To claim the rights of British nationality and to fly the British flag, a ship must be owned by British subjects and be registered in the Board of Trade Register. Before a certificate of registration will be issued to the owners it is necessary for them to furnish elaborate particulars as to the hull, internal construction, tonnage, builder, master, etc. This registration certificate must always be carried on board, and it bears a number by which the ship is known. The name of the ship and its port of registration must be painted on the stem, and the draught scale must appear on both bow and stem.

MEASUREMENT OF SHIPS.—The measurement of a ship determines the total capacity of the vessel, by which is regulated the amount of the cargo it can carry and the port and canal dues, etc., which it must pay. A ship is described as being of so many "tons register" (which is its gross *registered tonnage* based on its measurements), and its capacity is ascertained by measuring all *covered* space in cubic feet and converting into tons at the rate of 100 cub. ft. per ton. The *net tonnage* is also registered, and is the more important measurement. It is calculated from the gross tonnage by making allowances for space occupied by the crew and engines or used for purposes of navigation. These allowances amount to about one-third of the total, except in the case of passenger liners where they may be as much as two-thirds. The *cargo capacity* can be stated in what are known as "measurement" tons. A measurement ton is about 40 cub. ft., and a ship-owner has the option of giving a freight quotation in either measurement tons or ordinary "dead-weight" tons.

THE PLIMSOLL MARK, or *load-line*, is painted on the ship to indicate the maximum depth to which it may be allowed to sink in the water. More than one line is marked, since the depth of the immersion varies according to the salinity of the ocean. Thus the highest mark (nearest fresh-water mark) is that for the Indian ocean (summer) and the lowest that for the North Atlantic (winter).

The British load-lines were originally more stringent than any others, so that whilst it was not profitable to work under the British flag, even the oldest types of British ships could work at a profit under foreign regulations. When the rules were revised in 1906, an alteration in the load-lines to correspond more closely with foreign load-lines automatically added over half a million tons to the carrying capacity of British shipping. Differences between British and foreign regulations still operated, however, to the detriment of British shipping (since British-built ships working under foreign flags could compete unfairly whit British ships serving British ports), and in 1909 it became

necessary to provide that all ships using British ports should use the British load-line.

Besides the registration and measurement of ships, the Marine Department of the Board of Trade is responsible for, *inter alia* :—

(*a*) Enquiries into shipping casualties ;
(*b*) The conduct of examinations for the issue of certificates of competence to navigators ;
(*c*) The control of pilotage districts and authorities ;
(*d*) The buoying and lighting of the coast and waterways of Great Britain (this is delegated to Trinity House) ;
(*e*) The testing of chains, cables and anchors ;
(*f*) The assignment of " free board " (*i.e.*, the height of the sides of the vessels above the load-line) ;
(*g*) Compliance with the regulations for ships' wireless equipment ;
(*h*) The making of regulations as to saving life and preventing collisions at sea ;
(*i*) The issue of certificates of seaworthiness to passenger and other vessels.

Lloyd's Registry of Shipping.

Almost as important as the control by the State is the semi-official control by Lloyd's Shipping Registry, which originated in the necessity for a marine insurer to know something of the vessel he was asked to insure. The famous " Lloyd's List." or Register of Shipping, was first drawn up in Edward Lloyd's coffee-house, where shippers, underwriters and captains were wont to congregate, and was first printed in 1734, although actual registers were not published until 1864.

At first there was a preference amongst insurers for London ships, since it was easy for underwriters, knowing how these ships had been built, to estimate the risks involved. This led to the foundation, in 1799, of a rival register; but the two were amalgamated in 1833, and the following year the title became " Lloyd's Register of British and Foreign Shipping." There are other shipping registers, but Lloyd's Register is by far the most important. It registers and classifies ships, controls the designing and building of vessels, specifies the materials to be used in construction, and surveys the ship periodically to confirm its classification.

Classification of a ship is made from two standpoints, hull and equipment, the first being classified alphabetically, the second numerically : thus, a ship whose hull and equipment are both regarded as first-class is described as " A1 at Lloyd's."

As a general rule, every vessel over 100 tons is entered on

the Register, but no vessel is classified unless it conforms with the rules of the Register as to design and construction.

The Register is controlled by a general committee of seventy-two members, who represent all interests and places, while, in addition, there is a technical committee of fifteen, consisting of naval engineers, architects, shipbuilders, forge-masters and representatives of the Iron and Steel Institutions, which draws up rules for the construction of any ship which is to be registered. The Register is a purely independent and impartial body and must be clearly distinguished from the Corporation of Lloyds. (See Chapter 46.)

The Fixing of Shipping Rates : The "Conference" System.

The fact that a liner must sail to schedule, whether it has a full load or not, induced liner owners to take steps to ensure that a reasonable minimum cargo should always be forthcoming. To this end the "Conference" system was evolved, *i.e.*, the owners formed associations to protect their interests. The first conference was arranged in 1875, when equal rates were fixed for each of the ports from which steamers within the associations sailed, and preferential rates were forbidden. But although this had the effect of maintaining rates, it did not protect liners from the competition of the tramp. This led to the introduction, in 1877, of the "*Deferred Rebate*" system, first applied to shipments of Manchester piece-goods to India. By this system, if goods were despatched by one line only, for a given period, then a rebate was allowed, computed on the freight charges paid during that period; but the rebate was paid over to the exporter only after a further period of loyalty to the shipping company. The system proved a great success and spread rapidly to most other routes, only coal and special shipments being excluded from the arrangement.

The system of conferences has been extensively applied in the outward trades, and each conference has its own particular area. In addition there are arrangements between the various conferences for the division of territory where their routes intersect or overlap. These arrangements depend for their enforcement simply on the fear of retaliation, but they are nevertheless, very loyally observed.

In the homeward trade the conference system is less general, owing mainly to the fact that the greater part of the import trade is in staple articles which move in bulk in large quantities and expect lower rates than the liner can usually offer. Where, however, the cargo is an alternative to ballast, the liner may be prepared to underbid the tramp. The balance of trade is an important factor in the problem of securing the loyalty of customers. If, as in the Indian trade as a whole, the tonnage of outward traffic is below that of homeward traffic, the merchant in the latter case cannot be enticed by any rebate system.

South Africa gives an example of the reverse conditions where the deferred rebate system was originally especially easy to apply, although the position is not so favourable to-day.

The "*agreement*" system is an alternative to the deferred rebate system as a basis for the conference system, which is itself essential to the maintenance of a liner service, since competition between liners would be incompatible with the stability of rates required by the merchant.

The system was introduced originally into the South African trade after legislation in that country had prohibited the allocation of the mails contract to lines using the deferred rebate system. Under the agreement system, a definite contract is entered into between the shippers and the shipping company whereby the former agree to give all their traffic to the company and the latter agrees to maintain regular services to provide sufficient tonnage for normal trade requirements, and to maintain stable rates. It is an essential of this system that the traders shall be well organised; thus, in South Africa the contract was made with the South African Trade Association.

The agreement system has the advantage over the rebate system that it ensures the shipowners of the entire support of the shippers, whilst to the shippers it ensures that the carriers shall carry out certain obligations which, under the rebate system, were only implied. Finally, there is the advantage that the shippers pay *net* freights, no capital being left to accumulate with the company.

Tramp and Liner Rates.

It will be obvious from the foregoing that, whereas the liner quotes rates according to a fixed schedule, the tramp fixes its rates on a strictly competitive basis, and as a result of bargaining between tramp owner and shipper. The rates charged by liners contain a charge to compensate the shipping companies for the cost of maintaining regular services without regard for the volume of traffic available. In certain instances, however, liners do quote competitive rates, and this happens, for example, where it is a question either of accepting cargoes at unremunerative rates or of abandoning the line. On conference lines, however, this is forbidden (theoretically), for the liner is pledged to carry goods only at specified minimum rates. In practice this is overcome to some extent by the granting of "secret rebates," or, where the shipping line is in close contact with a railway company, by quoting special "through rates" for land and sea carriage. Moreover, the terms of certain conference agreements provide for special competitive rates in certain classes of goods, as, for example, where the shipping company has a standing agreement to carry at a rate which is below the conference rate.

A "Square Deal" for the Railways.

In November, 1938, the main railway companies sought to remove existing Parliamentary restrictions on their freedom to fix their own charges for the conveyance of goods and to establish their right to run their businesses on commercial lines. They contended that they were compelled to operate under obsolete laws passed to protect the public when there was a danger of railway monopoly. These laws are unnecessary now that railways are subject to fierce competition from road transport.

The railways, in view of their legal liability as common carriers, must accept any merchandise offered to them and they have consequently organised their system so as to serve all parts of the country, regions of sparse traffic as well as regions of heavy traffic. Road hauliers, on the other hand, are not common carriers. They can choose for transport only the best paying goods, goods that are compact, clean and heavy, that require no special arrangements and are not unduly bulky. Further, road hauliers neglect areas of light traffic and concentrate on areas of heavy traffic, competing there with the railways. The railways thus see the cream of the traffic filched away from them, while they are left with the worst goods to carry and the worst areas to serve.

The railways attributed their failure to earn the standard revenue under the 1921 Act to unfair competition from the roads, and also pointed out that if relief were not granted, their continued efficiency as a national system might be endangered, because of the difficulty of raising new capital.

The Proposals of the Railways.—The railways did not wish to evade their liabilities or claim any relief as common carriers, or to be placed in a privileged position. What they asked for was the freedom to charge the rates they considered suitable and appropriate for the goods they were bound to carry as common carriers.

They proposed, therefore, the repeal of restrictions inherited from the past, such as the cumbersome classification of goods (which gives so much trouble to railway users), the publication of all their rates (which provides their road competitors with useful information), and the provisions relating to undue preferences (which force unremunerative business on them). They would then be free to operate their business on equal terms with competitors. Further, so that they could maintain their position in the competitive field on a fair basis, they proposed that any future legislation governing the charges and conditions of other forms of transport should be applied equally to the railways.

The Minister of Transport admitted the justice of the companies' case, but the whole matter will probably be shelved until the end of the war. An important result of the railways'

action was the formation in February, 1939, of a Central Consultative Committee, representing the road and rail interests, to work out a scheme of co-ordination and an agreement on haulage rates. The road industry promised not to oppose the railways' claims and in return the railways undertook not to oppose, for two years, application by existing holders of *A* and *B* licences, to run additional vehicles.

AIR TRANSPORT

Civil Aviation in Great Britain.

The first air service in Great Britain was inaugurated in 1919 for carrying mails between London and Paris. Several independent companies were established but they made slow progress because for short distances air transport had few advantages over other forms of transport, and competition was very strong. Long distance air transport led to international complications and agreements for permission to pass over foreign territories had to be negotiated, involving lengthy delays.

It became obvious that civil aviation could not progress very far without government assistance, and, in 1924, the most important companies were amalgamated into Imperial Airways, Ltd., a privately owned concern, which acquired a ten-year monopoly of air transport from Great Britain to other countries and enjoyed a Government subsidy under a ten-year agreement. During this period, Imperial Airways made great strides, and built up, in addition to the services established between this country and Europe, an inter-imperial system of air transport, operated by modern flying boats. Air connections exist between Great Britain and India, Australia, South Africa and other parts of the Empire ; the North Atlantic service for passengers and mails operates in conjunction with American air lines.

In 1934, the monopoly of Imperial Airways expired and new companies began to operate on the European routes. These companies, failing to operate at a profit, combined in 1935 as British Airways, Ltd., and were granted a Government subsidy.

The Government policy of subsidising two competitors led to waste and overlapping, and the Cadman Committee was set up to enquire into the position of civil aviation. The Committee reported in March, 1938, and its main recommendations were the allocation of various routes, *e.g.*, Empire, European, London-Paris, to separate companies, each of which was to be subsidised by the Government. These recommendations were rejected by the Government, however, which decided, at the end of 1938, to combine Imperial Airways and British Airways, as a *public corporation*, after the style of the British Broadcasting Corporation. The previous owners of the two companies were bought out and paid in Government fixed-interest bearing stock.

Air Transport and Commerce.

A modern air transport system provides a regular, convenient, efficient and rapid service, the advantages of greater speed increasing with the distance involved. The service is comfortable for passengers and safe for goods. Goods of all kinds can be carried and customs formalities can be very quickly complied with so that there is little delay in obtaining clearance. It is true that, as yet, transport charges are high and the service is, therefore, most suitable for goods of high value in small bulk, such as bullion and diamonds, or of perishable goods, where rapid transport is essential. As efficiency improves and charges fall, there is little doubt that the range of goods carried by air transport will expand.

QUESTIONS BEARING ON CHAPTER 23

1. "The 'appointed day' under the Railways Act, 1921, was 1st January 1928." Explain carefully the significance of this statement and its importance for traders. (*R.S.A., Stage III.*)

2. What principles determine the limits within which railway and canal transport rates are fixed? (*R.S.A., Stage III.*)

3. In what circumstances is road carriage of goods a more desirable mode of transport than by rail or canal? (*London Chamber of Commerce, Certif.*)

4. Contrast the methods of fixing freight rates in the case of sea trans port by liners and by tramp steamers. (*R.S.A., Stage III.*)

5. What are the advantages and disadvantages of waterway transport over railway transport? (*London Chamber of Commerce, Certif.*)

6. What are Shipping Conferences and how do they seek to control ocean freight rates? (*R.S.A., Stage III.*)

7. What limitations have been placed on railway and canal companies in respect of freedom to alter rates and charges? Explain the procedure you would adopt so as to obtain as favourable rates as possible from such companies for your consignments. (*R.S.A., Stage III.*)

CHAPTER 24

METHODS OF COMMUNICATION

EQUALLY as important as the means of communication described in the preceding chapter are those methods of connecting commercial units which involve the transmission of the written and spoken word.

The Post Office.

The most important instrument in this connection is the Post Office, which is a Government Department under the control of the Postmaster General (P.M.G.), with its headquarters, the General Post Office (G.P.O.), in London. It renders innumerable services in connection with the carriage of letters and parcels, the upkeep of a telephone system, and the despatch of telegrams, cablegrams, radiograms and postal remittances.

The *Post Office Guide*, the official handbook of the Post Office, is published periodically by the Department, and is obtainable at any post office on payment of the sum of one shilling. The Guide gives full particulars of the methods and conditions of each of the services rendered by the organisation, and a copy should be available in every business of any size in order that full advantage may be taken of the alternative services and rates available. In large businesses resort to these special terms may effect a considerable economy in the postage costs during the course of a trading period.

Postage.

The fee payable to the Post Office for the collection, carriage and delivery of correspondence and of small packages sent by letter post is known as *postage*. The fee is paid by purchasing from the Post Office a stamp or stamps of the required value, the stamps being affixed to the letter, other document or package to indicate that the fee has been paid. The amount of the postage payable depends on the weight and character of the correspondence or package, and on its destination. If stamps are not affixed before despatch (*i.e.*, if postage is not "prepaid"), the postal authorities affix a "postage due" stamp, which is at a higher rate than the ordinary postage, and is collected from the addressee on delivery. The addressee can, of course, refuse to accept delivery of such a packet.

The more important postage rates for letters and small packages sent by letter post are as follows :—

INLAND RATES (*i.e.*, matter addressed to places within Great Britain and Northern Ireland) :—

Not exceeding 2 oz. . . .	$2\frac{1}{2}d.$
For each additional 2 oz. or part thereof .	$\frac{1}{2}d.$

COLONIAL RATES (applicable to all other countries within the British Empire, except Iraq and Transjordan, and to the United States of America and Egypt) :—

Not exceeding 1 oz. . . .	$2\frac{1}{2}d.$
For each additional oz. or fraction thereof .	$1d.$

FOREIGN RATES (applicable to countries not included in either of the above) :—

Not exceeding 1 oz. . . .	$3d.$
For each additional oz. or fraction thereof .	$1\frac{1}{2}d.$

INLAND POST CARDS.—Provided their measurements do not exceed $5\frac{7}{8}$ in. by $4\frac{1}{8}$ in. nor fall short of 4 in. by $2\frac{3}{4}$ in. these may be sent for $2d.$

PRINTED PAPERS AND DOCUMENTS (up to 2 lb. in weight, but not beyond).—The term "printed papers" includes books, pamphlets and leaflets, sketches, photographic prints, maps, plans, etc. Documents here mean business papers of a formal character, such as invoices, orders, advice notes and receipts. A full list of papers and documents coming under this head can be found in the *Post Office Guide*.

The prepaid rate is :—

Up to 2 oz. in weight . . .	$1d.$
For each additional 2 oz. or part thereof .	$\frac{1}{2}d.$

Mimeographed circulars, or circulars printed in imitation of typewriting, are included in this class of postal packet and carried at these rates only if at least twenty similar copies are *handed in* to a post office all at the same time and the fact that they are circulars is stated on a form provided by the Post Office. This rule is made owing to the difficulty of distinguishing such circulars from the ordinary typed letters which they are often carefully designed to imitate.

Private Boxes.

Arrangements may be made with the Post Office for all correspondence addressed to an individual firm or company to be sorted and placed in a private box to be called for by the addressee or by an official of the firm or company.

A private box must be rented for not less than a year, and the annual charges are as follows :—

1. For collection at any Delivery Office in London, Provincial, Head, Branch or District Office that undertakes deliveries, or any salaried sub-office—£3 10*s*.

2. For collection at any other sub-office—£2.
3. Where a bag is used to collect the letters, a fee of £1 10*s.* per annum is charged in addition to the fee for the box.
4. A double fee is charged when a box or bag is used for both letters and parcels.

As a rule, the day's post is collected by a junior clerk or messenger, who presents over the Post Office counter a locked leather bag bearing the firm's name. One key of the bag is kept by an official of the firm (usually the head of the Postal Department or the Chief Clerk), and the other by the Post Office authorities. This prevents any tampering with the letters between the Sorting Office and the office of the addressee Unless the person collecting the correspondence has the correct bag, or is well known to the Post Office officials, he will be required to present a written order signed by the renter of the box authorising the Post Office official to hand over the mail.

The system of private boxes is a useful safeguard against the misdelivery of letters, and is also advantageous where it is required to conceal the name of the addressee, in which cases correspondence may be addressed to a *Box number.*

Parcel Post.

When packages which are too large for the letter post have to be despatched, they must be sent by parcel post. In the case of inland parcels, the length must not exceed 3 ft. 6 in., the combined length and girth must not exceed 6 ft., and the weight is restricted to 15 lb. The charge for carriage varies, according to weight, from 6*d.* to 1*s.* and is paid by the purchase of postage stamps, which must be affixed to the parcel by the sender.

In no circumstances must a parcel be posted in a letter-box. It should be marked "Parcel Post," and handed in at the counter of a post office. The address should be written on the parcel itself and not merely on the label, and the sender's address ought always to be written either on a separate slip inside the parcel or on an inside cover.

Registration of Letters and Parcels.

Wherever documents of value or importance are to be sent through the post they should be registered. The procedure is as follows :—

(1) A strong cover is used, preferably sealed with wax.
(2) Blue lines are drawn in the form of a cross on both sides of the cover.
(3) The packet is handed to an official at a post office, and a registration fee is paid, in return for which a receipt is given by the official. The registration fee is additional to the ordinary postal fee, but is paid in the same way

by the purchase of postage stamps, which are affixed to the cover. The fees payable on registration vary from 3*d.* to 1*s.* 11*d.* A registration label is attached by the Post Office to the envelope.

(4) When the packet is delivered, the recipient must sign a receipt therefor.

Many large businesses obtain from the Post Office a sheet of registration labels and thereby save much trouble by entering the letters in a register kept by themselves, which is franked by the Post Office on presentation with the letters.

The objects of registration are to ensure delivery and to make it possible to *prove* delivery. Moreover, compensation, not exceeding £400, may be obtained in case of loss, but in the case of money, compensation will be paid only if the money is enclosed in a Post Office official registered envelope; and where coin is sent, compensation is limited to £5. The amount of compensation payable in other cases varies according to the registration fee, the minimum fee of 3d. covering compensation up to £5. The Post Office authorities reserve the right to replace the contents of the packet instead of paying the amount of compensation.

If proof of posting a letter or postal packet other than a parcel is desired, a *Certificate of Posting* can be obtained for a fee of ½*d.* It gives no claim to compensation for loss.

Insurance.

If it is desired to cover against the loss of an unregistered letter, it is possible to insure the letter. This can be effected with an insurance company. But insurance of letters and parcels sent to foreign places may be effected with the Post Office. This is particularly useful when valuable parcels are being sent abroad, as the registration system does not extend to parcels. Every insured letter or parcel must be sealed with wax on every opening in the wrapping and on every knot in the string (if any), and the amount for which the letter or parcel is insured must be stated in both words and figures at the top of the cover, above the address.

Certificates of Posting.

These can be obtained when unregistered parcels are posted in order that compensation may be claimed if the parcels are lost in the post. There is no charge for these certificates, which are usually embodied in Parcel Receipt Books.

Compensation for loss of an unregistered parcel, or for damage thereto, is payable up to £3 in the case of inland parcels, and up to £1 12*s.* 0*d.* in the case of parcels addressed to various British possessions and foreign countries, provided that the loss or damage is sustained whilst the parcels are in the custody

of the Post Office, and that it is not due to faulty packing or other negligence on the part of the sender.

Samples.

Special reduced rates are available for sending samples through the post.

Cash on Delivery (C.O.D.).

This is discussed in Chapter 29.

Business Reply Cards, Envelopes, and Telegrams.

The "business reply" system was introduced by the Post Office to assist business men who desire to receive a reply from customers without putting their customers to the expense of paying postage on that reply.

To make use of the system, it is necessary to secure a licence from the Post Office, and to pay in advance a deposit sufficient to cover the probable amount of the charges which will accrue during an agreed convenient period, *e.g.*, a month, three months or six months. At the end of the agreed period an account is rendered for the actual amount due.

Envelopes and cards must be in a specified form, bearing two thick vertical lines at the right-hand edge, and must bear on the face the licence number together with the phrases "Business Reply Card (or Envelope)," "Postage will be paid by addressee," and "No postage stamp necessary if posted in Great Britain or Northern Ireland." The vertical lines must be in black or some other deep colour, *e.g.*, brown or green or blue, which contrasts with the background: red, orange and yellow are excluded.

The system is of particular use to advertisers as a means of encouraging replies from potential customers, and it can be used with advantage in many other directions, as, for example, by a company which wishes to circularise its shareholders on a question of voting at an extraordinary meeting, and desires replies granting proxies to the directors. Instead of using stamped postcards as has previously been the practice, the company can enclose business reply cards, which the shareholders fill in and post without stamping. The Post Office records the number of replies and submits an account in due course for the amount owing. The charge is 2*d.* for each postcard, with a surcharge of ½*d.* per card, so that the company would gain if less than 66 per cent. of the cards were returned. Letters bear a similar surcharge of ½*d.* in addition to the 1½*d.*

A later development is the application of the system to telegrams. The user is allowed to distribute special telegram forms, not requiring prepayment, to his customers, and has to

pay the telegraph charges only in respect of those telegrams which he actually receives.

Express Letters.

Letters may be sent more quickly than they would be by ordinary mail service, by "expressing" them, *i.e.*, paying extra for their rapid despatch to the addressee.

In this case the word "Express" must be boldly and legibly marked above the address and on the left-hand side of the cover (whether of letter or parcel), and, in the case of a letter, the cover must also be marked with a broad perpendicular line from top to bottom, both on front and back. Letters for express delivery may be posted, handed to a postman, or delivered to a post office, but parcels and *registered* letters must be handed in at a post office, or in a rural district to a postman.

There are also facilities for the delivery of letters by special messenger.

Railway Letters.

Letters are sometimes forwarded by railway in order to reach a person in a distant town more quickly than would be the case by the ordinary mail. The service is run jointly by the Post Office and the railway companies, but letters thus sent must not exceed 2 oz. in weight, and must be addressed in one of the following ways :—

(*a*) *To be called for at railway station.*

James Brown, Esq.,
Parcel Office,
Bedford Station.
(To be called for.)

(*b*) *To be posted on arrival.*

James Brown, Esq.,
11 Southdown Road,
Bedford.
To Bedford Station.
(To be posted on arrival.)

The ordinary postage stamp (2½*d.*) must be affixed, and when the letter is handed in at the parcel office of the station from which it is to be sent, a fee of 3*d.* is paid to the clerk.

Under the "railex" service, express letters handed in at a post office will be taken by a telegraph boy to the railway station, instead of being passed through the sorting office to await the first mail. Simultaneously, a telegram will be sent to the receiving post office containing instructions to collect the letter at the station and deliver it specially to the addressee.

If more convenient, the sender may telephone the nearest post office and the letter will be collected. An inclusive fee of 2*s.* 6*d.* is charged for this service.

Late Fee Letters.

When the ordinary post has been missed, letters may be posted in a special box in certain post offices and in P.O. boxes at certain railway stations if an additional ½*d.* stamp is affixed. These letters are included in the mail-bags right up to the time of sealing—usually half an hour after the ordinary last-post time.

Poste Restante.

Travellers, who are not sure what their addresses will be, may have letters addressed to the Head Post Office of any town, and call for them there. Such letters are held by the Post Office for fourteen days only. The envelopes may be addressed :—

A. P. Lucas, Esq., G.P.O., Leeds. (To be called for.)

or

A. P. Lucas, Esq., Poste Restante, Leeds.

Re-direction of Letters.

When letters arrive at an address after the addressee has left, they may be re-directed without any additional charge, provided they are not kept beyond the day after delivery—excluding Sundays and bank holidays. All that is necessary is to cross out the wrong address, write the correct one clearly alongside, and post again in the usual way.

Reply Coupons.

When it is desired to furnish a person abroad with the means of replying without expense, a reply coupon may be sent to him which he can exchange at his own post office for stamps of suitable denomination. International reply coupons, useful for almost all foreign countries, cost 6*d.*, whilst Imperial reply coupons, exchangeable only within the British Empire, are sold at 3*d.* each.

TELEPHONE, TELEGRAMS AND CABLES

Modern business frequently demands some means of communication that is more rapid than the post, and in such cases use can be made of the telephone, the telegraph, the cable, or the wireless service.

The Telephone.

The telephone system in this country is the monopoly of the Post Office, and is divisible into two sections :—

(1) LOCAL, and Toll or short distance lines, which cover all lines controlled by one exchange, *e.g.*, the lines of a town or district.
(2) TRUNK, or long distance lines, connecting the various exchange areas.

The installation of a telephone may be obtained on application to the District Superintendent of the Post Office Telephone Service. Each subscriber pays a rental for the use of the telephone, the amount of which varies according to the district and is slightly higher for business houses than for private residences. Rentals are payable quarterly in advance, and, in addition, calls made by a subscriber are charged for, local calls being at a lower rate than toll and trunk calls, the rate for which varies according to the distance.

Once a subscriber has had the telephone installed he has it always at his service and can make calls not only to any part of the country, but also to many countries overseas.

For a slight additional charge a caller may book what is known as a "personal call" by giving the name of the person to whom he wishes to speak. In such a case, the caller will be put into communication only with the person asked for, and if that person is not available no fee is charged for the call.

Extension lines, connecting several departments of an establishment with the exchange, are installed at reduced rentals. These lines are connected up to a "Private Branch Exchange," operated in the same way as a Post Office exchange by an operator in the firm's employment. When a firm which has installed such a branch exchange is called, the first answer will be received from the operator, to whom the name of the department required should be given. Thereupon the operator will "plug" the call through to that department. When it is desired to make a call from any such department to an outside subscriber, the private branch exchange will first of all be called and the Post Office exchange asked for, on receiving which the call is put through in the usual way. Alternatively, the number of the subscriber to be called may be given to the firm's operator, who will put the call through to the Post Office exchange and ultimately connect up the department with the required subscriber.

By means of the private branch exchange the various departments of the business may be placed in communication one with the other without calling the Post Office exchange.

The Automatic System of Telephones.

This system of telephonic communication enables the subscriber to obtain connection with the required number by the use of a revolving dial numbered 0–9 and marked with the letters of the alphabet for the names of various exchanges. The receiver is lifted from the hook and a continuous hum is heard, whereupon the dial is revolved first to the letters denoting the exchange and then to the figures in the order in which they occur in the number required. A continuous buzz indicates that the line is engaged, but, if the line is not engaged, a series of two signals will be repeated until the person to whom the subscriber wishes to speak has lifted the receiver. When a trunk call is desired, the subscriber calls the exchange and obtains the required number through the operator.

Telegrams.

In some cases the telephone is unavailable or unsuitable as a means of communication. The telephone, of course, can be used only when one or both of the people concerned are subscribers, but even where the telephone is available it may not be entirely suitable for the transmission of a message. For instance, when it is desired to send an offer of sale to a person in a distant place, that person cannot be expected to act upon a verbal message, and, in such circumstances, resort is had to a message sent by telegram transmitted by cable or wireless.

Like the telephone, the telegraphic system in this country is a Post Office monopoly. Telegrams may be sent by application to the local post office, where a form must be filled in with the required message, with the name and address of the addressee and also those of the sender. Telegrams may also be sent by telephone, or they may be handed to a postman for delivery to a telegraph office, or they may be enclosed in an envelope marked "Telegram—Urgent" and placed in a post box for collection; but in either of the last two cases the fee must be prepaid.

The charge for sending inland telegrams is 9*d.* for the first nine words, including the address, and 1*d.* for every additional word. Figures are counted at the rate of five figures to one word. The fee is payable at the time of despatch, and is made by the purchase and affixing of stamps of the required value on the telegraph form. If the sender has a deposit account for telegrams at a particular post office he need not, of course, pay the fees at the time of despatch.

In addition to the usual forms for telegrams, other forms can be obtained with embossed stamps, either singly or in books of twenty, interleaved, and with carbon paper for taking copies.

Certified copies of telegrams can be obtained at the local post office on payment of a fee of sixpence per copy.

Telegrams are delivered free of charge within a radius of three miles of the office nearest the address, or within the town postal delivery. For delivery beyond these limits, a charge at the rate of 6*d.* per mile or part of a mile is made, such charge being based on the distance from the free delivery radius only.

By affixing the proper amount in stamps to the telegraph form, the sender of a message can prepay a reply of not more than fifty-one words (forty-eight for places in Eire). The recipient can use the prepaid reply at any time within twelve months of the date on the form. Should the reply be longer than is thus provided for, it is necessary to affix stamps to the reply form to cover the excess charge.

A telegram will be delivered at two or more addresses in the same free delivery area on prepayment of the ordinary telegram charges for the total number of words in the addresses and text, in addition to a charge of 4*d.* for every copy beyond the first.

Codes and Cypher.

As telegrams are charged for at so much a word, it is obvious that, for reasons of economy, they should be as short as possible. For this reason, and for purposes of secrecy, many business firms use a *cypher* or a *code* for their telegrams.

Code language must be composed of words, but these words may be pronounceable or artificial. The modern invented codes that are now in use, such as the A.B.C., Bentley's, Peterson's and others, are made up of five-letter artificial code words, arranged in alphabetical order. Each word represents some common phrase, sentence, banking or shipping term, offer or quotation, used in business. The Post Office and cable companies agree to accept ten letters as constituting one word for telegraphing purposes, so that, in the process of coding, two five-letter code words are joined. A message can, in this way, be sent very cheaply.

The receiver of the code message "decodes" it into "clear" language by consulting his code book (which is, of course, the same as that used by the sender) for the meaning of each five-letter word.

Some concerns use private codes, copies of which they send to their regular clients.

Telegraphic Address.

Abbreviated addresses are used by many business concerns in order to save time and minimise expenditure in transmitting telegrams. The address generally consists of a short word, usually "coined" from or related to the name of the firm or company, followed by the town in which the business is situated. Such addresses must be registered at the Post Office, and an

annual fee of £2 is charged therefor. Thus, the telegraphic address of the Chartered Institute of Secretaries is " Secretaryship, Cent London " : this counts as two words, the indicator word " Cent " not being charged for, as it is a Post Office indication of the appropriate delivery office. Without such an abbreviated address it would be necessary to write : " Chartered Institute of Secretaries, London Wall, E.C.," which would count as six words, and add considerably to the cost.

Telephone Addresses.

Telegrams may also be addressed to the telephonic addresses of exchange subscribers for delivery by telephone (so long as the local telephone exchange is open), *e.g.*, " Smith, Twickenham 473." This arrangement is particularly helpful when it is required to send a message at night and the local telegraph office is closed. Messages are probably received more quickly this way than by ordinary delivery, and in confirmation of telegrams thus delivered by telephone, written copies are sent by post to the addressee daily, or twice daily, in batches, without charge.

Cables and Wireless.

Messages for rapid transmission abroad may be sent either by cable or wireless. The cable and wireless routes radiating from this country are now almost entirely under the control of Cables & Wireless, Ltd., which was formed in 1929 to take over the existing routes from various competing companies and from the Post Office. The Post Office owns the radio-telephone system so that there is still a certain amount of dual control.

The methods of sending by cable or wireless are almost identical with those for telegraphic communication—codes and cypher being commonly used. Messages can be handed in at a post office or at the office of a cable company. In cases where the message is handed to a post office, the authorities use their discretion as to whether they shall send by cable or wireless, unless the sender marks the message " Cable " or " Wireless." The post office and telegraphic offices are also open to send " radiotelegrams " to any ship equipped with wireless telegraphic apparatus. Messages of this kind are written on the usual telegram forms.

QUESTIONS BEARING ON CHAPTER 24

1. What are the conditions under which the following may be posted at 1*d*. rates :—

(*a*) An imitation typewritten letter ;
(*b*) An account for goods sold ?

cases on the quantity, or *quota*, of goods which can be imported as in the case of films, wheat and meat.

The *Film Quota Act* provided that a certain proportion of films exhibited shall be British produced. Judging by actual results the Act must be regarded as successful, for under its stimulus the film industry in this country has progressed satisfactorily and has increased not only the quantity but also the quality of the films produced.

By the *Wheat Quota*, it is intended to provide the wheat growers of the United Kingdom with a secure market; to secure for them a better price for home-grown wheat of millable quality and to discourage the extension of wheat cultivation to unsuitable land. To attain these objects the farmer may sell his wheat in the open market, but must keep a record of every transaction. At the end of the cereal year he receives a "deficiency payment" representing the difference between the standard price of 45*s.* a quarter and the average price paid for home-grown wheat in the open market. The deficiency payments are made from a fund derived from quota payments made by millers on each sack of flour milled in this country or by importers of foreign milled flour, so that no expense falls on the Exchequer.

In order to prevent excessive production, the Minister of Agriculture fixes an estimate of the crop for each year on which the bonus is to be paid. The maximum is 6,000,000 quarters. The Flour Millers' Corporation may be ordered to purchase unsold stocks of home-grown wheat of millable quality at the end of the cereal year.

The Act has been criticised on the ground that it will increase the cost of bread. A far more effective criticism is that. while it was hailed as a measure to restore prosperity to agriculture, it assists only a very small—and probably the least important—branch of agriculture. Of far more importance is the dairying and meat-raising section—which is penalised by the Quota owing to a rise in the costs of feeding stuffs.

The *Meat Quota* provides for a substantial reduction in imports of foreign meat. The quota allotted to foreign countries is to be reduced gradually, while the quota allotted to home and Dominion producers is to be gradually increased. In this way it is hoped to provide the Empire meat-raising industry with a more extensive market, and more remunerative prices. Precautions have been taken to prevent an undue rise in prices.

QUESTIONS BEARING ON CHAPTER 25

1. What is meant by entrepôt trade? What special features does it possess from the point of view of the British importer? (*R.S.A., Stage III.*)

2. What do you understand by "dumping"? What arrangements provide against dumping in this country? (*R.S.A., Stage II.*)

PART V

TRADE AND ITS DIVISIONS

CHAPTER 25

HOME AND FOREIGN TRADE

TRADE was non-existent in the earliest times. Then the economic unit was the family, which satisfied its own needs directly. But as population increased and families banded together for both protective and productive purposes, there arose a tendency for the various members of the community and then for the various communities themselves to specialise on particular occupations. Specialisation brought with it many advantages. It resulted in a cheaper and better product and in speedier production so that it became profitable for groups to exchange the fruits of their efforts one with the other. This was the beginning of *internal* trade. At first, the exchange of goods and services took place only within the bounds of each community, but as man wandered further afield he realised the advantages to be obtained from trade with other communities and, then, from trade with other nations. This was the beginning of *foreign* trade.

As civilisation progressed and communities developed into nations the distinction between home and foreign trade grew more real. Each nation became a distinct economic entity with its own laws, its own system of money, and its own stanᴚprds of weights and measures. Codes of law were drawn up which differed from one another in various respects, and distinct languages came into use. All such distinctions between one nation and another necessarily created economic barriers which were at first not easily overcome, and, as the natural result, capital and labour became more mobile within the boundaries of a state than between one state and another. As between two countries with differing monetary systems, transactions have to be carried out through the medium of the foreign exchanges, since there is no common legal tender, while the even flow of goods is not only dependent on distance and on the efficiency of the transport facilities available but is also greatly influenced by the existence of tariffs and by the granting of preferences and bounties in favour of prescribed articles.

International trade, therefore, having to overcome its own peculiar difficulties, came to possess certain features which distinguish it from internal trade. Nevertheless, so far as the transactions of buying and selling themselves are concerned, the distinction between the two types of trade is not fundamental, for the *principles* underlying business in the home trade are precisely the same as those underlying business of the same kind in the foreign field, viz., *specialisation* and *exchange*.

The Organisation of the Home Trade.

The Home Trade of this and of any other country may be said to consist of three divisions. The first of these is composed of a variety of businesses whose function it is to place commodities on the home markets in a usable form. This division may be termed the *Creative* class; it comprises both the merchants who import produce from overseas and also the home manufacturers who work to supply the home market.

The next division is an *Intermediary* class, whose function it is to take over the goods from the first class and (usually) store them pending their purchase by the third class. This section of the home trade includes the businesses known as *wholesale merchanting and warehousing* (see Chapter 28). Businesses in this class usually require a large capital to enable them to carry heavy stocks, for it is their function to ensure that supplies of goods shall be readily available as and when required. Such businesses buy in bulk and sell in smaller quantities to the third class—the *Distributive* class of retailers or retail distributors.

This last class embraces a great variety of concerns. It covers the small retail shop, or even the market "stall" owned by one man, doing either a general business or specialising in one type of goods, as well as the great *Departmental Stores*, such as Selfridges and Harrods, which bring together under one roof a hundred and one different lines of goods and so enable their customers to do all their shopping in one building. Further, it includes the establishments known as *Multiple Shops* or *Chain Stores*, owned usually by a limited company which runs many shops in scattered localities, as, for example, the businesses run by Boots, Sainsburys, Liptons and Woolworths.

A form of retail concern which is rapidly dying out is the "*tied shop*," though it is still of importance in the brewing industry where brewing concerns finance public and other licensed houses on condition that they sell only the products of the sponsors. This type of concern also persists in the tobacco and jewellery trades.

Then there are the *Co-operative Stores*, which, as their name implies, and as is explained in Chapter 32, are either wholesale or retail concerns run by consumers' co-operative societies

whose object it is to obtain for purchasers the benefit of the profits which otherwise accrue to the middlemen.

In a class of its own is the *Mail Order business*, a type of concern—either wholesale or retail—which sells through the post, by sending out catalogues and other printed matter offering goods for sale (see Chapter 30).

It must not be thought that *all* goods pass through the hands of the three main classes described above. The tendency towards integration is developing markedly in modern trade. How far and in what direction it is carried depend upon the nature of the goods dealt in.

FOREIGN TRADE

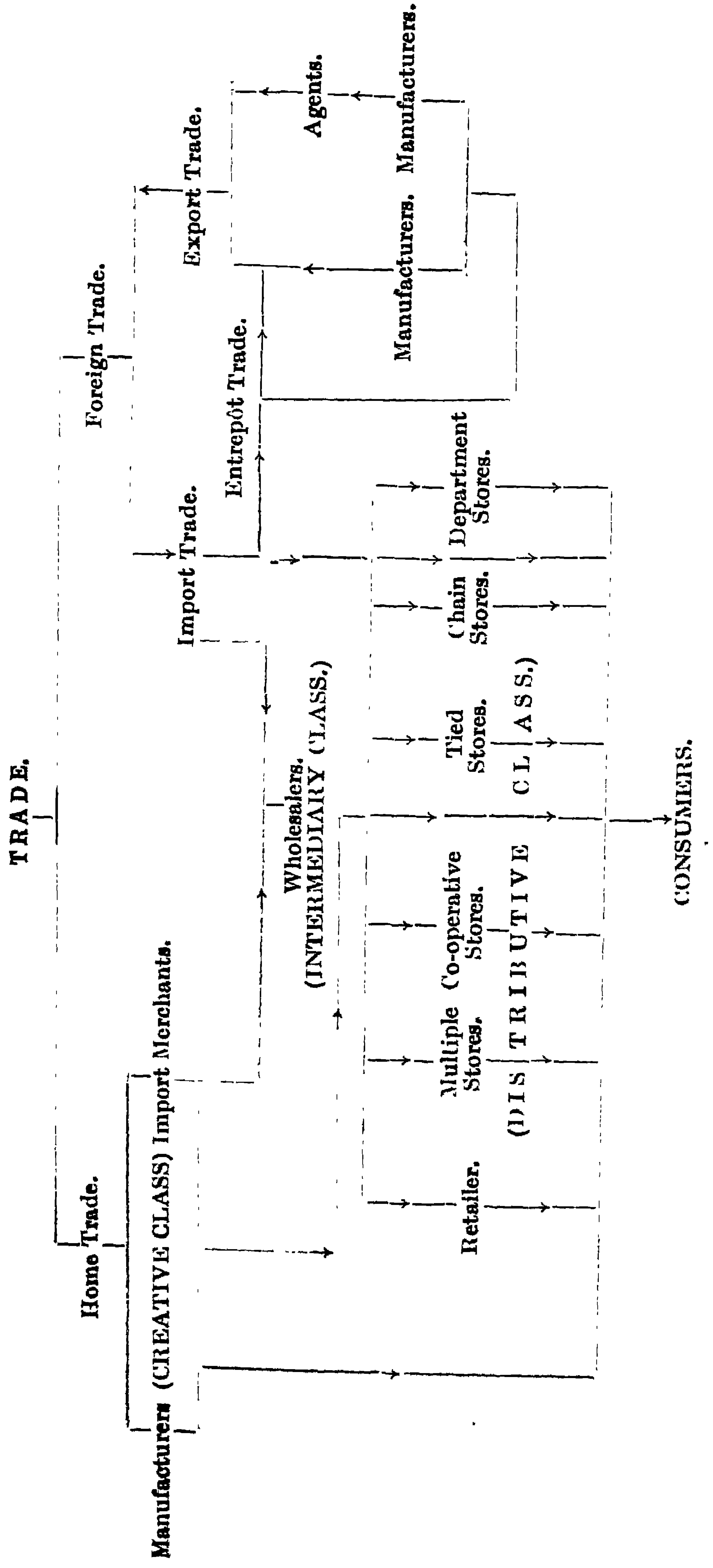
The organisation of foreign trade is similar to that of home trade, but while the latter consists in the distribution among consumers of goods imported from other countries as well as those produced at home, *foreign trade comprises the exchange of the surplus products of one nation for those of another.* Whereas home trade involves the purchase and sale of goods by consumers from manufacturers through the intermediary of wholesalers and retailers, foreign trade is carried on usually through wholesale merchants. The chief exception arises when special transactions are made by direct contract between foreign manufacturers and home consumers (as in the case of machinery).

The Theory of International Trade.

Foreign trade, then, is merely an extension of home trade, and of the principle of the territorial division of industry or of territorial specialisation. Some localities are more suited than others to the production of certain classes of goods, by reason either of natural conditions or of racial characteristics. For instance, South Wales produces a smokeless coal, anthracite—invaluable for certain purposes—which is produced in few other parts of the world, and that area has, in consequence, become an important coal centre.

The occasion for the growth of trade in such cases is obvious, but there is another set of conditions in which trade arises. It may be that a country or locality imports goods which it could itself produce at a lower cost than the country from which the goods are obtained. The Clyde valley, for instance, has decided advantages over other parts of the world in the production of both ships and cotton goods. But of these two, that area has a greater advantage in the production of ships. In other words, greater gain accrues to the people of the Clyde valley if they concentrate mainly on the production of ships rather than on cotton manufacture. The principle involved in determining the direction of effort in such cases is known as the ***Law of Comparative Costs.***

THE DIVISIONS OF TRADE.



Law of Comparative Costs.

Suppose that in country A the expenditure of £1 will enable either 10 units of X or 8 units of Y to be produced, and that in country B the same expenditure results in the production of either 8 units of X or 4 units of Y. Obviously, country A has an advantage over country B in the production of both commodities, but the advantage is greater in the case of commodity Y than in the case of commodity X. Hence country A tends to specialise in producing Y and to leave B to produce X. If both countries had each expended £1 on the production of each article, the total expenditure of £4 would have produced 18 units of X and 12 units of Y. By means of specialising, however, the expenditure of £4 results in the production of 16 units of X and 16 units of Y, showing a reduction of 2 units in X and a gain of 4 units in Y. Since 4 units of Y are more valuable than 2 units of X in both countries (in A the labour necessary to produce 4 units of Y could produce 5 units of X, while in B it could produce 8 units of X), there is a net gain which is shared by the two countries according to the strength of their respective bargaining powers.

Entrepôt Trade.

A large part of the foreign trade of this country is really *Entrepôt Trade, i.e.*, the import of foreign produced goods merely with a view to re-exporting them. The country into which they are imported acts purely as a collecting and distributing centre and is chosen for this purpose by traders because of some special advantages which it possesses for the storage, handling and redistribution of goods.

London is the most important *entrepôt* in the world. There goods from many countries are collected, warehoused pending sale and ultimately sent off to their respective destinations. Other important entrepôts are Hong-Kong, Singapore and Colombo. These places act as clearing houses for other countries which find it cheaper to import or export through the entrepôt than to trade direct. This may be either because the producing countries have not sufficient dealings in the commodities concerned to justify the setting-up of a complete marketing organisation, or else because they have not a large enough volume of trade with certain other countries to justify or permit the transfer of complete cargoes between them. For example, suppose country A produces a certain commodity which is used by many countries, including country B, situated on the other side of the globe. Exporters from A and importers from B will probably find it most economical to have the commodity sent in bulk to an entrepôt, such as London, where the bulk is "broken," *i.e.*, the consignment is split up, and arrangements are made for the portion required by country B to be despatched thither together with other similar commodities collected for B at the entrepôt.

The Economic Effect of Customs and Excise Duties.

Pure economic theory does not support duties on imports or exports, because they interfere with the economic distribution of international trade in accordance with the law of comparative costs. Moreover, the imposition of an import duty on a certain class of goods has often the effect of raising the price of the goods to the home consumer and so making it possible for a home producer to compete with the foreigner on an economically unfair basis.

Suppose a certain commodity can normally be produced and sold by British manufacturers at a fair price of 30*s*., whilst manufacturers in, say, France, are able to produce the same article and sell it in this country at 25*s*. Obviously, it would seem to be more profitable for the consumers in this country to purchase their requirements from France, while if this were done, the goods would be produced by the nation best fitted for their production. But suppose now that Britain imposes an import duty of 10*s*. on the commodity. The position changes, and, while the foreign producer has to raise his price to 35*s*. (25*s*. plus 10*s*.), the home producer is still able to sell at 30*s*., and obtain the same profit as before. Clearly, consumers in this country will transfer their custom to home producers. But the economic effect is that goods are now being produced by a country, or rather by producers, who are not, economically speaking, so well fitted for the business; in other words, who are not so efficient. The net result, assuming that imports of the commodity from France cease and the whole home demand is satisfied by home producers, is that consumers pay 5*s*. more for their commodity.

Excise duties, *i.e.*, duties imposed on home-produced goods, have little effect on the trade of the country, for, almost without exception, an excise duty which is levied on a commodity produced in this country is counteracted by a similar duty imposed on the same commodities imported from abroad. When such equal duties are thus imposed on both home and foreign produced articles, the foregoing remarks respecting customs duties do not, of course, apply; the duties in such cases are imposed purely for revenue purposes and do not divert trade (see Chapter 35).

A country is said to have adopted the principles of "free trade" when it observes the following rules :—

(*a*) Trade with all nations is unrestricted and on equal terms.

(*b*) Taxes on imported goods are imposed only for revenue, and generally only on articles which are not produced at home.

(*c*) Excise duties are levied for revenue purposes and are imposed on articles produced at home with the object

of balancing, or as it is called, "countervailing" the taxes imposed on foreign imports for revenue purposes.

Protection.

In spite of the fact that economic theory supports absolute freedom of trade between all nations of the world, political and social considerations are often more powerful in determining national policy. Hence, we find that almost all the great trading nations have framed regulations or imposed "protective" duties which have the effect of restricting the free interchange of goods between themselves and other countries, mainly with the object of protecting certain home industries against unlimited foreign competition.

Occasionally, the protection thus afforded by the so-called *tariff* on imports is accompanied by a scheme for encouraging home industries by the granting of *bounties* or *subsidies* in favour of certain exports.

BOUNTIES.—In some cases, *premiums* on goods exported are paid by the State to encourage their production and exportation, the object being to foster the growth of an industry or of industries by enabling them to compete with established foreign industries. The system is widespread in Continental Europe and in certain of the Dominions, but this method of fostering new industries has long been abandoned in England.

SUBSIDIES.—Closely allied with bounties is the system under which the State grants a subsidy to a particular industry. Examples of such subsidies are the payments made to certain shipping lines to speed up the transport of mails and the assistance given to the beet-sugar industry in this country with a view to fostering the development of home supplies of sugar and at the same time providing employment for agricultural workers.

The Case for Protection.

There are a great number of arguments both for and against the protectionist principle, but only the most important of these need be introduced here.

First, it is claimed that the imposition of protective duties encourages diversity of industry, a factor of great importance in time of war. Secondly, it is argued that infant industries must be protected, since only in this way can they develop in face of competition from well-established industries abroad.

The argument is particularly strong in the case of *infant industries* in a "new" country. A new country in the early stages of its settlement tends to develop natural resources to the exclusion of manufacturing industries. There is a limit, however, to the productivity of natural resources because the supply may become exhausted or the full extent of the market may be reached.

In such circumstances a country must find other occupations for her people, and is justified in excluding manufactured products of other nations in order that the products of her own industries may obtain the home market. But this argument is economically justifiable only in the early stages of development—just for a sufficient length of time to give the industry a chance to produce under increasing returns. After that point the industry should, from a strictly economic standpoint, either stand or fall by its merits, although there may be strong political and psychological reasons which impel a young country to strive to develop manufacturing industries so that it may become independent of other nations for its supplies.

It is also urged, on patriotic grounds, that *home industries should be encouraged* because, if home markets are reserved to home producers, the latter benefit from the security of an internal market free from international complications.

The fourth justification of a policy of protection is that it is necessary to *prevent the "dumping" in one country of the products of the sweated labour* of another, or the products of industries conducted under monopolistic conditions. In the former case, home producers cannot compete because they are compelled to pay higher wages than their foreign competitors. In the latter case, foreign monopolistic organisations sometimes produce more than is required to satisfy the home demand, in order to obtain the benefits of production under conditions of increasing returns, and dispose of the surplus production at rock bottom prices, thereby undercutting home producers. Frequently, articles are dumped in a country at low prices by a large foreign organisation in order to drive the home producer out of business, and, as soon as this object is achieved, prices are raised again. In this way, false economic conditions are created, and protectionists argue that a protective duty is justified in order to maintain the native industry against the methods of its rivals.

Protectionists also claim that protective duties *result in an increase in wages* since those industries which are already well-established can pay more because their markets are extended, while new industries are set up which employ more workers and so increase the demand for labour.

Finally, protection is advocated on *fiscal grounds*. It is said that the protective duties afford a handsome revenue largely at the expense of the foreigner, and thereby enable internal taxation to be reduced.

The Case for Free Trade.

To each of the above arguments of the Protectionist the Free-Trader has a counter argument. First, it is said that the diversification of the industries within a nation is opposed to the principle of international trade, since it aims at a national

unity instead of an international one, and results in a loss of the advantages of division of labour. Moreover, it is claimed that the nursing of an industry is economically unnecessary, because an industry which is well suited to a particular locality or country should grow without protection; the imposition of protective duties to foster an uneconomic growth is unsound because it actually results in the flow of capital and labour to relatively unproductive uses. The support of industries on patriotic grounds is also considered to be charitable and not economic, since a thriving home industry should be able to do without protection.

With regard to the prevention of dumping, the Free-Trader argues that this is a spasmodic and irregular occurrence, frequently of benefit to consumers. Consequently, if duties are to be imposed to prevent dumping they will need continual revision.

Next, it is argued that high wages due to State interference are not economic if they are higher than is justified by efficiency. Although wages in particular industries may rise, wages in other industries, whose products can no longer be bought by foreigners, may fall. Other things being equal, *real* wages will be higher if cheap goods can enter the country without restriction.

Lastly, it is argued that the protective duties are paid not by the foreigner but by the home consumer; protectionist taxes cannot be shifted on to the foreigner, except in rare instances, and usually the home consumer pays them in the form of higher prices for his goods. In any case, the Free-Trader points out that a protectionist duty cannot be successful both as a source of revenue and as a means of protection. In so far as it succeeds in one direction it must fail in the other.

Protection in Great Britain.

In spite of Britain's long adherence to the general principles of Free Trade, the difficulties of the War and post-war periods brought a sharp reaction in fiscal policy. The measures taken involved the imposition of (*a*) the McKenna duties; (*b*) duties to protect "key" industries and the Safeguarding duties; (*c*) the duty on silk; and finally (*d*) a general tariff.

THE MCKENNA DUTIES.—These were introduced in 1915, purely as a war-time expedient to prevent the excessive expenditure on certain luxury articles which were being imported from the United States especially, and were taking up much-needed tonnage on ships. The duties were levied on: (1) private motor-cars and accessories; (2) musical instruments; (3) clocks and watches; and (4) cinema films.

THE SAFEGUARDING DUTIES.—These were duties imposed to protect certain "key" or "pivotal" industries, notably chemicals, whose existence is necessary for national defence in time of war.

By the *Safeguarding of Industries Act*, 1921, some 3000 articles were subjected to an *ad valorem* duty of 33⅓ per cent., and wide powers in regard to the imposition of duties were conferred upon the Board of Trade, which was given the responsibility of taking measures to protect home industries against unfair competition.

THE DUTY ON SILK.—This was imposed in 1925 purely as a "luxury" tax.

The General Tariff.

With the minor exceptions already mentioned, Great Britain adhered to the principles of free trade after the Great War. Unfortunately, nearly all other countries, pursuing a policy of "economic nationalism," built up high tariff barriers. As a result of this and other factors, British exports fell off heavily, whilst the home market was inundated with goods dumped here by subsidised foreign exporters. These conditions led to an outcry in favour of protection in this country, but it was not until the collapse of the pound and the abandonment of the gold standard in 1931 that measures were introduced (*The Abnormal Importations Duties*) for the imposition of duties on certain articles. These measures were regarded as temporary expedients and involved no fundamental change in our position as a free-trade country; but a definite break with tradition came in February 1932, when the *Import Duties Act* was passed. This Act provided for the imposition of an import duty of 10 per cent. on practically all imported goods.

IMPORT DUTIES ADVISORY COMMITTEE.—These arrangements were made hurriedly, and it was considered that defects would become obvious as the scheme operated. Hence, a Committee, with wide powers for obtaining the necessary information, was appointed to consider the future of the Abnormal Importations Duties; to enquire into the position of industries which might appear to require additional protection, and to recommend the imposition of additional duties on certain goods, as, for instance, luxury goods. It had also power, after six months' experience of the 10 per cent. duties, to recommend further exemptions. By this machinery various additional duties have since been imposed.

RETALIATORY DUTIES.—The Board of Trade was empowered to impose supplementary duties in cases of foreign discrimination against us. This provision has already been used, *e.g.*, against France.

Imperial Preference.

The imposition of a general tariff brought into prominence our position in regard to trade with other members of the British Commonwealth of Nations. Most of these countries gave tariff preferences to British goods, while we, in return, gave similar

benefits in reductions ofcustoms duties on sugar, dried fruits etc., and lower rates on goods subject to safeguarding. It had been urged in influential quarters that all duties between the countries of the British Commonwealth should be abolished and that goods should pass freely within the Empire ; in short, that we should establish *Empire Free Trade.*

With the imposition of a general tariff by Great Britain, however, this became an impracticable ideal. It was therefore urged that preferential treatment should be accorded to the members of the British Commonwealth. At the conference held at Ottawa in 1932 arrangements were made for a scheme of reciprocal preference. Great Britain agreed to impose duties on foreign imports of certain foodstuffs, including wheat, maize (flat white), butter, cheese, certain fruits (canned and raw), eggs and condensed milk, and to perpetuate the existing 10 per cent. preference on a large number of Empire products. In return, each of the Dominions agreed to maintain or increase the preference accorded to British goods, mainly manufactured articles, the most important items being textiles, clothing, iron and steel goods, machinery, and electrical goods.

Trade Agreements.

Preferential treatment was not confined to members of the British Commonwealth. Early in 1933, largely as a result of the strengthening of our bargaining power through the imposition of the general tariff, we were able to conclude favourable trade agreements with various foreign governments, in particular the Scandinavian countries, Germany and Argentina, whereby British tariffs on certain imports from those countries were reduced in return for concessions granted by those countries to certain of our export industries. The industries which secured the greatest benefit from those agreements were cotton and coal.

These agreements are, of course, no new thing. For many years it has been the practice for countries to enter into " commercial treaties " with one another. Commonly the treaty includes the " *most favoured nation* " clause, whereby each participating country agrees to grant to the other at least as favourable terms in the matter of import duties as it grants to any other country. It is the existence of numerous treaties of this kind which makes it so difficult to alter the terms of preference accorded to any single country. Nevertheless, the general principle of reciprocal *reductions* of duties is to be preferred to a system of competitive tariff building.

Quota Schemes.

Our adoption of Protection did not stop at the imposition of tariffs. With a view to further adjusting the balance between imports and exports, restrictions have been imposed in certain

cases on the quantity, or *quota*, of goods which can be imported as in the case of films, wheat and meat.

The *Film Quota Act* provided that a certain proportion of films exhibited shall be British produced. Judging by actual results the Act must be regarded as successful, for under its stimulus the film industry in this country has progressed satisfactorily and has increased not only the quantity but also the quality of the films produced.

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QUESTIONS BEARING ON CHAPTER 25

1. What is meant by entrepôt trade? What special features does it possess from the point of view of the British importer? (*R.S.A., Stage III.*)

2. What do you understand by "dumping"? What arrangements provide against dumping in this country? (*R.S.A., Stage II.*)

3. In what ways does foreign trade differ from home trade ?

4. Into what different departments would you divide the trade of a country ?

5. Analyse the factors which cause trade to be carried on between nations.

6. What do you understand by the fact that a country has adopted the principles of Free Trade ?

7. Examine the arguments put forward on behalf of protection.

8. What is a tariff ? What is the object of imposing a tariff ?

9. What is involved in the adoption of a policy of quotas ?

10. Write notes on the following : (*a*) Comparative Costs ; (*b*) Subsidies ; (*c*) McKenna Duties.

11. What is the advantage of agreements which include a "most favoured nation clause" ?

CHAPTER 26

BUYING AND SELLING

THE greater part of the activities of the business world is concerned with the buying and selling of goods and services. The manufacturer buys his raw materials and the services of his workmen, and sells his finished articles to the wholesaler; the wholesaler in turn buys from the manufacturer and sells to the retailer; and so on. In this chapter it is proposed to outline a simple sale transaction such as might arise in the home trade, with the object of illustrating how the machinery of buying and selling is interlocked, and how each succeeding stage follows logically on the preceding one.

Buying.

In every trading concern (and by that is meant every concern whose business it is to buy and sell goods for a profit), the duty of arranging for the purchase of goods should be supervised by a person who understands the peculiar requirements of the firm, and who is thoroughly conversant with the main sources of supply and with the vagaries of the goods with which he has to deal. Such an individual is known as a *Buyer*. In large businesses a separate department, known as the *Purchases* or *Buying Department*, is frequently found. This department is composed of buyers, whose duty it is to place orders for purchases, and a staff of clerks, who attend to the internal affairs of the department. The head of the department is known as the *Chief Buyer*, or the *Purchases Manager*, of whom it has been said: " It is his duty to buy wisely and so regulate his turnover as to be able to show a profit to the firm after the deduction of a fair proportion of the cost of maintaining the establishment as a whole, and without transgressing its general policy."

To assist the buyer in his work the *Purchasing System* should provide for the recording and classifying of the sources from which all goods used by the concern are purchased and can be bought, together with current quotations therefor and records of previous purchases of such articles. It should maintain a uniform method of ordering and of keeping track of unfilled orders. Moreover, it should provide an efficient means of checking all deliveries, and of correcting any mistakes which may be made in despatching or in invoicing.

Selling.

In all businesses where the primary object is to sell goods for a profit, it is essential to organise the sales in a methodical and economical manner. The sales organisation naturally varies in character according to the size and the amount of trade in each particular firm, but in all cases there must be a Sales Department, which, in the majority of cases, is controlled by the *Sales Manager*, who directs the whole of the sales organisation. The object of the Sales Department is obviously to sell the goods of the firm, and this it does by canvassing for orders, and arranging for the despatch of goods as expeditiously as possible in strict accordance with the orders received.

The method of appealing for orders may take many forms, but broadly there are three main classes :—

(1) The Operations of Travellers or Salesmen, who call upon (canvass) possible buyers, as well as on old customers, to offer goods for sale. For instance, a wholesale grocer's traveller when in a particular district would call not only on old customers to obtain orders, but also on any other likely grocers who were not yet customers. This calling on non-customers is called " canvassing " for business, and the first object of such work is to arouse interest and to get enquiries.

(2) Advertisements in the Press, or Posters.—This is fully described in Chapter 14.

(3) Circulars, Price Lists, and Prices Current.—These may be sent to all customers on the firm's mailing list, or they may also be sent to enquirers and possible customers. Price lists and circulars are sometimes distributed broadcast to selected sections of the public or to certain classes of traders. For instance, a merchant might circularise all the ironmongers in a certain area with copies of his catalogue or price list. Orders may also be obtained through an auctioneer, a factor, or a broker, different classes of agents whose functions have already been described.

Enquiries.

The enquiries which result from the appeals of the Sales Staff may be in the form of direct orders for goods, or they may be mere requests for information. Enquiries of the latter kind usually ask whether a certain type of goods can be supplied, and, if so, at what price and under what conditions respecting delivery, terms of payment, and so on.

The enquiry may be about one specific article or line of goods, or it may be general. In the latter case the enquirer seeks a general list of prices and the terms of payment. These enquiries may come direct to the business by letter, post card, telegram, or other method, or they may come through a traveller or agent. But whatever the method, the enquirers become what are called

in sales language "prospects," that is, they bring a prospect of business, and it is the work of the Sales Department not only to obtain enquiries but also to turn the prospects into actual customers.

We will suppose that Messrs. Wilson & Westward, wholesale tailors of Newcastle-on-Tyne, who desire to complete their stocks of cloth for the spring business, send out a letter of enquiry to Messrs. MacVenn & Co. Ltd., who are cloth factors of Glasgow. The letter might be worded as follows :—

ENQUIRY.

WILSON & WESTWARD.

WHOLESALE TAILORS AND OUTFITTERS.

NORTHUMBERLAND STREET, NEWCASTLE-ON-TYNE.

Telephone : 1237.

Messrs. MacVenn & Co., Ltd., *3rd January,* 19 .
Glasgow.

Dear Sirs,

We require a few ends of Scotch Tweeds and Saxonies to complete our range for the coming spring trade. They should comprise both heavy and light-weight goods of a quality suitable to a good middle-class business. Will you please, therefore, send us your patterns and quote your prices f.o.r. Glasgow for quantities of one or two ends of three patterns in each cloth.

Yours faithfully,
WILSON & WESTWARD.
(Signed) *T. F. Wilson.*

This specimen confirms with the requirements that a letter of enquiry should, as far as possible: (1) State definitely the requirements. (2) Say, if possible, what the goods are for; *e.g.*, "for a good middle-class business" in the letter above. (3) Give the approximate amount that will be required. (An "end" of cloth is half a piece; *i.e.*, about 25–30 yds.) (4) Indicate whether the seller pays carriage or not; *e.g.*, *f.o.r.*, which means that the buyer will pay all charges after the seller has delivered the goods to the railway in Glasgow.

The Quotation.

The next stage in the transaction is the answer to the enquiry, known as the "quotation," which may be defined as an offer to sell certain goods at a price under conditions that are stated. Some of the conditions may be :—

"Subject to being unsold at receipt of order."
"Subject to acceptance within three days."

In our imaginary transaction we may assume that Messrs. MacVenn & Co., Ltd., reply to the enquiry, enclosing patterns and a quotation, as follows :—

LETTER ENCLOSING QUOTATION.

MACVENN & CO., LTD.

CLOTH FACTORS.

WEST NILE STREET, GLASGOW.

Telegrams : Vennco, Glasgow.
Telephone : City 2204.

Messrs. Wilson & Westward,
Newcastle-on-Tyne.

5th January, 19 .

Dear Sirs,

We thank you for your enquiry of the 3rd instant for Scotch Tweeds and Saxonies, and have pleasure in sending you herewith a book of patterns and quotations.

In the quotations we have indicated which goods are for ready delivery which for prompt delivery, and which for forward delivery. You may take prompt delivery to be within fourteen days of receipt of your orders and in cases of forward delivery we have given approximate dates which will in no case be exceeded by more than a week.

We have quoted f.o.r. Glasgow as you desire.

Yours faithfully,
per pro MACVENN & Co., LTD.
H. Nimmo,
Sales Manager.

Enclos. : *Quotation.*
Patterns.

QUOTATION.

MACVENN & CO., LTD.

WEST NILE STREET, GLASGOW.

WAREHOUSE :
DOCKSIDE STREET,
GLASGOW.

Telegrams : Vennco, Glasgow.
Telephone : City 2204.
Quotation No. : *14966.*

To—*Messrs. Wilson & Westward,*
Northumberland Street,
Newcastle-on-Tyne.

Date : *5th January*, 19 .

PATTERN.	DESCRIPTION.	DELIVERY (Approx.).	QUANTITY.	PRICE PER YARD.
A	Scotch Tweed—Ambrose	Ready	per end about 30 yds.	6*s.* 6*d.*
B	„ „ —Mill Q	Ready	„	7*s.* 6*d.*
C	„ „ —Mill M	Prompt	„	9*s.* 6*d.*
D	„ „ —Maclean	Prompt	„	11*s.* 6*d.*
E	„ „ —Maclean X.	7th Feb.	„	15*s.* 6*d.*
F	Saxony „ —Northern	Ready	about 25–28 yds.	7*s.* 0*d.*
G	„ „ —Northern No. 2	31st Jan.	„	10*s.* 7*d.*
H	„ „ —Mill M	14th Feb.	„	10*s.* 0*d.*
I	„ „ —Mill D	Prompt	„	12*s.* 6*d.*
J	„ „ —Mill K	Ready	„	16*s.* 0*d.*

For acceptance within 14 days.

Terms : *5% 7 days ; 2%, 30 days on approved account f.o.r. Glasgow.*

per pro MACVENN & Co., LTD.
H. MacVenn,
Secretary.

Several points arising out of the above quotation are worthy of particular attention. It should be observed, first, that the quotation is *numbered* and that a copy thereof is kept on file so that it can be referred to quickly and conveniently. Then the quotation is *tabulated* so as to give the necessary information in easy form to the prospective customer, and to ensure that no particular is omitted by the Estimating Department. But it is not always necessary, or even possible, to set out a quotation in tabular form.

When reference is made to a pattern, or sample, care must be taken that the pattern is clearly labelled and that the reference in the quotation is correct. The pattern reference of the goods should enable the office making the quotation at once to recognise the particular class and quality of the goods, as the buyer may retain the sample and not return it with his order. In this connection it is desirable to retain in the office itself duplicates of all samples sent out, whether there are stocks in the warehouse or not.

The quantity on which the price is quoted is important, especially in cases where lower prices would be quoted on larger quantities. Moreover, it must be understood that the quantities referred to in the quotation allow for any additions which it is the custom of the trade to include; *e.g.*, the tailor gets 37 inches to the yard, and a quarter yard extra in each 10 yards, but this is a well-recognised trade custom, and is not, therefore, mentioned in the quotation. Likewise, most publishers in selling to booksellers allow 13 copies to the dozen.

Ready delivery means that the goods are in stock and can be despatched as soon as the order is received.

Prompt delivery means delivery within a few days of receipt of the order.

Forward delivery means delivery at some future date.

"*For acceptance within fourteen days*" means that the quotation is a firm offer of the goods, and that it will be kept open for fourteen days. The sellers promise to accept and fulfil orders according to the quotation for that length of time, but after that time the quotation is withdrawn and a new one must be asked for. The sellers have to protect themselves in this way in case the buyer should order on the quotation at some future date when prices have advanced. Most ordinary quotations are not *absolute* engagements to sell, but are subject to the goods being in stock *at the time the order is given*, and subject also to the market prices not going up in the meantime.

"*Five per cent., 7 days*," means that 5 per cent. discount will be allowed on the prices charged if payment for the goods is made within seven days of the date of the invoice. But if payment is made after seven days and within thirty days, only 2½ per cent. discount is offered.

"*On approved account*" means that the sellers would

demand cash from people of whose ability or willingness to pay they have any doubt, but that they will open an account and accept delayed payment when their credit department has made any necessary enquiries and is satisfied that the customer can be given credit to the amount involved.

F.o.r.—Selling f.o.r. or *free on rail* means that the price paid covers the cost of the goods, including packing or crating, together with the expense of carting them to the named railway station labelled ready to despatch, and ensuring that they go off to the buyer, who pays carriage when the goods are delivered.

Enquiries for Price Lists, Estimates or Tenders.

The above is an example of the form of quotation sent in answer to a direct enquiry. Other forms of enquiry are made for a price list, a prices current, an estimate, or a tender.

A Price List is a list of goods offered for sale showing the prices asked for them. It is not a *promise to sell,* because the stock of any particular line may be exhausted when an intending purchaser sends his order.

A Prices Current (P/C) simply shows the market prices of the goods listed at the time the list was made out, and is a form of quotation used extensively by dealers in raw commodities. Merchants send these lists to their customers to inform them what prices are current in the market on the date specified for the goods concerned, but the issue of such lists does not constitute a promise to sell the goods at the prices stated, because the market price may suddenly alter. Prices current are often printed in the daily papers, and are very soon out of date, especially in the case of commodities of which the prices frequently fluctuate.

SPECIMEN PRICES CURRENT LIST.

MARSHALL & HUNT LTD.

Poultry, E.C.

PRICES CURRENT—*16th November* 19 .

Teas.

Indian—		
Common to Good Common .	lb.	*1/5 –1/7*
Medium to Good . . .	lb.	*1/7½–1/11*
Fine to Finest . . .	lb.	*2/0 –4/0*
Ceylon—		
Common to Good Common .	lb.	*1/5 –1/7½*
Medium to Good . . .	lb.	*1/7½–2/0*
Fine to Finest . . .	lb.	*2/1 –4/0*
Java—		
Common to Medium . .	lb.	*1/1½–1/5½*

An ESTIMATE is a written offer to do certain work at a stated cost, in a specified way, and under specified conditions. Estimates are sometimes used in connection with the supply of goods, but they are more often used in connection with work to be performed on materials or premises of the person to whom they are sent. In making an estimate, a manufacturer is greatly assisted by his Costing System.

A TENDER is made in response to an advertisement inviting quotations for the supply of specified goods or for the execution of specified work. For instance, a workhouse may ask for tenders for the supply of meat of a specified kind and quality, so much each week for a year. Or a business may announce that it proposes to build a new factory of a certain size, and offer to supply exact specifications to any contractor who wishes to tender, provided he deposits a certain amount of money as evidence of good faith before he receives the specifications. A tender is the first step towards a contract—to which it naturally leads if the tender is accepted.

A FIRM OFFER is made when the seller *promises* to sell certain goods at a certain price, provided the order is given within a particular time. A quotation or estimate may ordinarily be withdrawn at any time before it is formally accepted, and, in law, a firm offer is no more binding unless it is made by deed or is given in return for valuable consideration. Nevertheless, no firm of repute would withdraw a firm offer before the stated or agreed date.

17, EAST ST.,
LONDON, E.C.

Messrs. A. H. Hall & Co., Ltd.,
Cheapside, E.C.

Gentlemen,

I offer you firm (or *I give you the refusal*) *till noon of Friday next;* 36 *pieces* (2160 *yards*) *Mill X Scotch Tweeds at* 9*s.* 6*d.*

Yours faithfully,
JAMES BROWN.

Other Price and Payment Terms.

It is, of course, important in the case of every quotation that the terms should be clearly stated as well as the price, because in the case of coal, for instance, a price "Carr. Pd." to the buyer's station gives far greater value than, say, a "pit-head" price. And this difference in value always occurs in greater or less degree. In addition to those noted above, the following are some of the terms most frequently used in the quotation and invoicing of goods:—

TARE is the name given to the weight of the container of the goods, *e.g.*, the case, the barrel, the sack, or the wrapper.

DRAFT is the allowed wastage in handling the goods (*e.g.*, leakage from barrels or torn sacks) and for errors of tare.

In wool sales tare is usually reckoned at from 9 to 12 lb. a bale, and draft 1 lb. a bale. Thus, in invoicing a bale of wool the broker must calculate as follows :—

Gross weight (= total weight of bale) .	3 cwt. 1 qr. 16 lb.
Tare 12 lb. and draft 1 lb. . .	13 lb.
Net weight of the wool . .	3 cwt. 1 qr. 3 lb.

The same thing can be seen at any coal wharf. The wagon and coal are weighed to find the gross ; the weight of the wagon (or tare) is either known or found before loading ; and

$$\text{Gross weight} - \text{Tare} = \text{Net weight.}$$

Sometimes the tare is found by actual weighing, but usually it is more convenient to take the customarily allowed weight or to make an agreed estimate of it.

Loco represents the cost of the goods *at the factory* (see page 216). It may include packing in the case of goods which essentially require packages, *e.g.*, patent medicines, or it may be exclusive of packing, as in the case of a motor-car, delivery of which is commonly made by road. If packing is required in such cases (*e.g.*, for export) the cost will be an extra. The custom of stating the place at which delivery is made, and whether packing is or is not included, is commendable, since it prevents any possible misunderstanding, *e.g.*, "Loco London Factory, packing extra."

At Station should always be accompanied by the name of the station concerned. The price here includes the packing of the goods ready for inland transport (except where stated otherwise) and then delivery at the railway station named. The seller is not responsible for loading the goods into trucks, or for paying for this service, where a charge is made.

On Rail signifies that any charges for loading at the railway station named are payable by the seller. If the named point is not the place of origin of the goods, the railway carriage to the named point is included in the quotation. In such cases a more common quotation would be "Carriage Paid to ——," naming the desired point.

Ex Warehouse is a "loco price" which shows that the goods are actually at the seller's warehouse.

Carr. Fwd., *i.e.*, Carriage Forward.—Although this really indicates that the cost of getting the goods must fall on the buyer, in practice it is usually the same as f.o.r., because the seller will nearly always put the goods on rail unless he expressly quotes "loco" or "*ex* warehouse."

Carr. Pd., *i.e.*, Carriage Paid, means that the seller is responsible for delivering the goods to the buyer's address or to the nearest railway station. In the latter case, some such

phrase as the following is generally used: "Carriage paid to nearest railway station." Then the buyer would have to collect the goods from the station himself, or pay the railway company to deliver them. This latter arrangement is adopted when the buyer is outside the railway company's free delivery radius, or where the goods are such as the company will not deliver free, *e.g.*, coal.

CASH WITH ORDER (C.W.O.) means that cash must be paid when the order is sent, or the order will not be executed.

CASH ON DELIVERY (C.O.D.) indicates that payment must be made at the time the goods are actually handed to the purchaser by the vanman, messenger, or carrier. In America there are very complete facilities offered by the postal authorities for collecting charges in this way, and there is a system in use in this country, in parts of the Empire and in Europe, whereby cash is collected for the seller when the postman hands the parcel to the addressee. The system in America is better, fuller, and more widely used, because an extensive rural and small town population makes the method of selling goods by mail order (*i.e.*, *mail order business*) far more important and necessary than it is here (see Chapter 30).

SPOT CASH means that cash must be paid with the order or when the buyer takes over the property in the goods, wherever they lie.

PROMPT CASH means that payment must be forthcoming in a few days (usually two or three), when reasonable time has been given for examining the goods and checking the invoice.

NET CASH—"Net" (or "Nett") in reference to payment means:—

(1) The amount payable after all deductions and allowances have been made; *or*
(2) The amount payable when no deductions are allowed, *i.e.*, prices for prompt payment without deduction. Usually, however, the phrase is completed by the addition of a time limit, *e.g.*, "Net cash within seven days."

CASH DISCOUNT is an allowance made to the buyer for prompt payment, or payment before the debt is due. It is generally worth the seller's while to make a small allowance to get the money quickly, otherwise he is denied the use of funds which he may profitably use in further business.

TRADE DISCOUNT is the amount allowed off the list price of goods to traders who buy to sell again. This discount varies enormously in different trades, rising to 60 per cent. or more in some cases. One reason for this is that the prices of raw materials used in manufacturing some articles vary considerably from time to time, and if manufacturers quoted net prices when their catalogues were issued they would be constantly

marking is usual with sea-borne goods, but not so common with packages sent by rail. Big stores constantly receiving goods often have a system of department marks so that the head warehouseman may store them in the proper place, or pass them immediately to the right department.

Bought and Sold Notes.

The foregoing is an example of a transaction in which goods are offered and ordered through the post. Many business transactions, however, are carried through orally in the first place, the buyer and seller merely making a note of the details either mentally or in a memo-book. Thus the majority of retail sales are the result of mere oral agreement, and no written record passes until an invoice is sent with the goods to the customer. Again, a huge amount of business on the great stock exchanges, produce exchanges and auction markets is conducted orally, buyers and sellers noting the particulars at the time and later confirming details by the exchange of *Bought Notes* and *Sold Notes.*

A Bought Note is a contract note sent by a buyer to a seller stating the terms and conditions of a purchase arranged orally.

Specimen Bought Note.

Leeds.
21st February, 19 .

Bought of

H. Jones & Company, Leeds.

One gross (144) Heifer hides, all over 80 lb., at 6½d. per lb. f.o.r. Nottingham. Terms 5% on monthly account.

Malcolm Nimmo & Sons Ltd.

A Sold Note is a similar note sent by a seller to a buyer stating the terms and conditions of a sale arranged orally. In form it is exactly similar to a Bought Note, except that it starts —" Sold to " instead of " Bought of."

Following up References.

When a prospective buyer furnishes references, the sellers, before granting the required credit, make enquiries from the referees as to the standing of the buyer. Thus, on receipt of Wilson & Westward's letter and order, MacVenn & Company acknowledge receipt and say that the matter is receiving their attention and that they will write again shortly. They then at once write to one or more of the referees named by Wilson & Westward in their letter. If they decide to take up the banker's reference they will, of course, have to do it through their own bank, for bankers will give information to one another, but not to outsiders.

LETTER TO REFEREE.

MACVENN & CO., LTD.

WEST NILE STREET, GLASGOW
(Accounting Department).

Telegrams: *Vennco*, Glasgow.
Telephone: City 2204.

Warehouse:
Dockside Street,
Glasgow.
11th January, 19 .

PRIVATE AND CONFIDENTIAL.
Plaids & Tartans Ltd.,
Edinburgh.

Dear Sirs,

Messrs. Wilson & Westward of Northumberland Street, Newcastle-on-Tyne, have asked us to open an account with them, and have given your name for reference on their behalf.

Would you be so good as to tell us whether you have had dealings for any considerable period with Messrs. Wilson & Westward, whether they are reasonably prompt payers, and whether we can safely give them credit up to £100?

We thank you in anticipation of this courtesy, and shall be pleased to reciprocate at any time if it is within our power.

Yours faithfully,
per pro MACVENN & CO., LTD.,
H. MacVenn,
Secretary.

Enclos.: Stamped addressed envelope.

REPLY.

PLAIDS & TARTANS LTD.

MOUNT STREET, EDINBURGH.

Secretary's Office. *12th January*, 19 .

PRIVATE AND CONFIDENTIAL.
Messrs. MacVenn & Co., Ltd.,
Glasgow.

Dear Sirs,

The firm whose name is on the accompanying slip have done business with us for the past seven years. They are slow payers, but sound. We think you could quite safely give them credit up to the amount you mention (£100).

This information is given without responsibility on the part of the company or of its officials.

Yours faithfully,
per pro PLAIDS & TARTANS LTD.,
Howard Jones,
Secretary.

Enclos.: Slip.

The first of these two letters is a sample of the two that MacVenn & Company might write to the last two referees, and in each case the enquiry must be accompanied by a stamped addressed envelope. MacVenn & Company might also enquire (through their own bank) of the Midland Bank in Newcastle-on-

Tyne, and they might also enquire from one of the agencies which make it their business to furnish such information (see below).

It will be observed that Plaids & Tartans Ltd. are careful not to mention Wilson & Westward's name on the letter, but put it on an accompanying slip. This is always done in case the letter gets into wrong hands. If it did, and the name were incorporated in the text of the letter, an adverse report might end in a libel suit. But when the slip is sent separately it would be difficult to prove connection between it and the letter, and with this in view, not even the typist typing an adverse report should know to whom it refers.

Moreover, a reply to an enquiry of this nature should always be marked " Private and Confidential " and should also state that Messrs. Plaids & Tartans give the information without responsibility. This is to avoid their being made liable for misrepresentation in case the information is inaccurate or misleading.

Credit Status Enquiries.

In the above example we have assumed that the buyers have given the names of business associates to whom the seller could refer for information as to their credit worthiness. It may be that no such references are given or that the seller desires some independent testimony as to the buyer's position, and in such a case application for a report may be made to one of the numerous enquiry agencies, such as Stubbs, Perrys, Bradstreets or Seyds, which make it their business to supply information on the financial status of trading firms, professional men and private individuals.

These agencies have a remarkable store of information, which they keep up-to-date by periodical enquiries from bankers or through their own local agents, and, by keeping a close watch on such matters as changes in partnerships, deeds of arrangements, companies' reports and bankruptcies, they are in a position immediately to supply reliable information to their clients on any firm or individual of reasonable importance. Further, should they have no information on their files regarding the subject of any enquiry, they will institute enquiries and supply the desired information in the course of a few days.

A firm of any size whose business necessitated frequent recourse to such sources of information would pay an annual subscription to one of these bureaux, and this would cover any enquiries made during the period for which the subscription runs as well as the issue of periodical literature, usually monthly, giving such useful information as company results in brief, charges registered, and bankruptcies. If, however, the business does not warrant the payment of an annual subscription, a supply of forms for occasional enquiries can be obtained at a reasonable cost.

Although replies to credit enquiries are usually given without responsibility to the giver, they should always be retained and revised periodically if an adequate check is to be kept upon the credit granted by the firm.

Executing the Order.

On receipt of a favourable reply to his "status enquiry" the seller will proceed to execute the order. Satisfied that they can give Wilson & Westward the credit asked for, MacVenn & Company write expressing their acceptance of the terms and stating that part of the order is being executed at once.

The manner of dealing with orders received depends on the system adopted by the concern in question, but the following is typical of the procedure which is usually followed where the goods are actually in stock.

(1) The orders as received are stamped with the date of receipt.

(2) The Order Department reviews the orders to correct inaccuracies, to clear up ambiguities and to obtain an idea of the trend of orders.

(3) Orders are then passed to the Credit Department, by which they are stamped and initialled "Credit Approved" if all is in order, *i.e.*, if they already know that the orderer is "good" for the amount, or if the replies to any status enquiries which they may have made are satisfactory.

(4) The orders are then passed to the invoicing section, where, at one typing, consecutively-numbered "sets" are prepared consisting of:—

(*a*) The *invoice* for the customer.

(*b*) A *copy invoice* for the traveller or agent of the seller in whose district the buyer may be.

(*c*) A *warehouse order* or *packing room order*, in duplicate, instructing the warehouse to prepare and pack the goods ready for immediate despatch. (See Specimen.) Care must be taken to despatch goods in respect of which the customer pays the carriage in exact conformity with the instructions given by him.

(*d*) *Advice to customer* (if required).

(*e*) *Departmental orders* (for making up the goods ordered if they have to come from several departments).

The carbons may be cut away so as not to copy prices.

Instruction to Warehouse.

No. *A. 611.* Date : *11th January,* 19

Pack and despatch the following goods to :—

Messrs. Wilson & Westward,
Northumberland Street,
Newcastle-on-Tyne.

Mark Bales . .	W W D & I W W
Route . . .	*L. & N.E.R. (Queen Street)*
Charges . . .	*Carr. Fwd. (f.o.r.)*

LIST.

1 end Maclean Scotch Tweed, Pattern D.
1 end Mill D. Saxony, „ I.

Signed . *J. Mansfield,*
Chief Order Clerk.

Date sent . *12th January 19* .
Time sent . *4 p.m., by Company's carter.*
Packed by *B. 4.*
Initialled . *J. B.*

The order is packed up from (*c*) and (*e*) and any alterations are clearly shown on (*c*) and also on (*d*) which is despatched with the goods. The duplicate copy of the Warehouse Order is returned to the office duly initialled to indicate that the order has been executed, and any alterations which may have been necessary are made on the invoice and copy. The invoice may now be sent to the customer, and the copy forms the basis of the debit to the customer in the seller's books. The copies may be re-sorted and used for sales' analyses, statistics and travellers' commission statements before they are finally filed.

With this system two clerks work together, one (the senior) working on the packer's copy, the other completing the invoice. The senior calls out prices, alterations, packages, etc., at the same time working out the figures, and the two clerks agree the total.

The packer's copy is passed first to the daybook clerk and then to the ledger clerk. The ledger is called back with the daybook, and a practically perfect " triangular check " is thus obtained.

Where the goods are not of exact sizes, and specifications, etc., differ, only the warehouse and other advices are made out on receipt of the order, the invoice and its copy being prepared when the goods are sent.

When this procedure has been completed, advice will be sent to Wilson & Westward in the form indicated below, and,

as this is the first transaction, it will be accompanied by a letter couched somewhat as follows :—

LETTER FROM SELLER TO BUYER.

MACVENN & CO., LTD.

WEST NILE STREET, GLASGOW.

Messrs. Wilson & Westward,
Northumberland Street,
Newcastle-on-Tyne.

12th January, 19 .

Dear Sirs,

Your Order No. B. 174.

We shall be very pleased to give you the extended credit asked for in your letter of the 10th instant, and have to-day despatched to you from Queen Street Station, Glasgow (L. & N.E. Railway), 2 (two) ends of cloth in two bales, all in accordance with the attached Advice Note. The rest of the order will follow on the delivery dates given in our quotation.

As this is the first time we have done business with you, we are anxious to know that our goods and methods are satisfactory to you. If there is any alteration you desire made in the latter, we should be glad to know, as we hope this order will mark the commencement of a long and mutually satisfactory business relationship.

Yours faithfully,
per pro MACVENN & CO., LTD.
H. Nimmo,
Sales Manager.

Enclos. : *Advice Note.*

Advice Note.

MACVENN & CO., LTD.

WEST NILE STREET, GLASGOW.

12th January, 19 .

To *Messrs. Wilson & Westward,*
Northumberland Street,
Newcastle-on-Tyne.

Dear Sirs,

Your Order No. B. 174.

We have this day despatched to you by L. & N.E. Railway Company Goods) the following :—

1 end (29 yards) Maclean Scotch Tweed.
1 end (30 yards) Mill D. Saxony.

W W
Bales marked D, I.
W W

Yours faithfully,
MACVENN & CO., LTD.
J.B.

serves also as Advice Note. In this case, however, it would be necessary to state the bale markings and date of despatch under the terms on the invoice. In other cases, a letter advising despatch replaces the formal despatch note.

The Invoice.

Once the seller has despatched his goods to the buyer he may turn his attention to the recording of the transaction in his financial books. The basis of this record is the "*Invoice*," which sets out the description of the goods despatched and states the amount which is being debited to the buyer. The following is the form of invoice sent in connection with our model transaction :—

INVOICE.

MACVENN & COMPANY LTD.

WEST NILE STREET, GLASGOW.

12th January, 19 .

Your Order Number *B. 174.*

Sold to
Messrs. Wilson & Westward,
Northumberland Street,
Newcastle-on-Tyne.

29 yards Maclean Scotch Tweed @ 11s. 6d. a yd.	*£16*	*13*	*6*
30 yards Mill D. Saxony @ 12s. 6d. a yd. . .	*18*	*15*	*0*
	£35	*8*	*6*

Part of Order only.
Terms : 2½ % two months.
Per L. & N.E. Rly.
E. & O. E.

This invoice is despatched at once so that it may be compared with the quotation when the goods are examined on arrival. This is necessary so that any error may immediately be put right. If the customer's order bears a number, the number should always be put on the invoice to facilitate reference. E. & O.E. means "Errors and Omissions Excepted," and indicates that the seller reserves the right to correct any error or omission on the invoice. The transaction is now complete, except for the necessary entries in the books of account by both firms, and the payment and receipt. The despatch of the remainder of the order will simply involve the repetition of the procedure already described.

Pro Forma Invoices.

Besides the type of invoice depicted above, a form commonly used is known as a "pro forma" invoice. The following are the chief circumstances in which such a form is used:—

(1) To show a buyer exactly what he would have to pay if he bought. Such an invoice may be simply a special form of quotation, or it may accompany goods sent on approval, so that if they are kept payment may be made in accordance with the *pro forma* invoice.

(2) When the seller for any reason decides he must be paid before the goods are delivered. The seller sends a *pro forma* invoice first and asks for payment before delivery.

(3) For handing to the Customs Authorities, when goods are consigned abroad. It then represents the declared value of the goods and is used for calculating the duty payable (see Chapter 35).

(4) For transmission to an agent to whom goods are consigned for sale. The agent does not pay until he has sold the goods, but the owner has given him possession of them and records the fact on the *pro forma* invoice, which indicates to the agent the price at which the consignor is willing that the goods shall be sold.

Debit and Credit Notes.

A Debit Note is similar to an invoice, but is generally used to correct an error or omission in an invoice. It is sent—

(1) From a seller to a buyer when the former has in error undercharged on an invoice.

(2) From a buyer to a seller when the former has been overcharged on an invoice.

(3) From a buyer to a seller when the former is returning faulty goods.

A Credit Note is the reverse of a debit note, and is sent—

(1) By the buyer to the seller when the former has been undercharged.

(2) By the seller to the buyer when the former has overcharged.

(3) By the seller to the buyer when faulty goods are returned by the latter.

Receipt of either a debit note or a credit note should always be promptly acknowledged, especially in the case where a

debit note is challenged. When a debit note is received it should be acknowledged by a credit note, and *vice versa*.

DEBIT NOTE.

Imperial Buildings,
HULL.

Messrs. Ford & Co., *11th December* 19 .
Mount Street.

DR. to JOHN MACE LTD.

		£	s.	d.
Dec. 9th.	*To 6 cwt. Muscatels (Fine clusters) invoiced at 167s. 6d. should be 177s. 6d. Undercharge . . . .*	*3*	*0*	*0*

CREDIT NOTE.

64–66 Mount Street,
HULL.

Messrs. John Mace Ltd., *12th December* 19 .
Imperial Buildings.

CR. by FORD & CO.

		£	s.	d.
Dec. 9th.	*By undercharge on 6 cwt. Fine clusters Muscatels . .*	*3*	*0*	*0*

(This form is printed in red, and the particulars also are typed or written in red.)

Statements.

At stated periods a firm sends to each of its customers a statement of account, which is really a copy of the account of the customer since it was last balanced and as shown in the firm's ledger. This statement shows the balance due at the beginning of the period, the dates and amounts of goods purchased or services rendered, and the payments made. It is also generally balanced to show what is carried forward as still owing. Apart from acting as a reminder to the debtor that he owes the money, the statement is necessary to enable the two firms to compare the entries in their books in respect of the trade between them. If the firm receiving the statement thinks it is an incorrect record of the transactions, that firm will at once notify the recipient of the error. When an error is discovered and agreed, it is usually settled by the exchange of credit and debit notes,

with the object of avoiding alteration in the entries already made.

STATEMENT.

MIDLAND WORKS, DUDLEY.

Mr. John Riman,
14 Bentley Street, Birmingham.

30th November 19 .

DR. to THE MIDLAND IRON & STEEL CO. LTD.

		£	s.	d.	£	s.	d.
Nov. 1	To Balance of Acct. rendered . .				231	2	10
„ 17	„ Goods	31	16	8			
„ 21	„ Goods	4	5	9	36	2	5
					267	5	3
Nov. 3	By Cash	200	0	0			
„ 19	„ Returns . . .	3	6	8	203	6	8
					£63	18	7

Statements are usually sent either monthly or quarterly, and as a rule they bear an indication of the "terms," *e.g.* :—

"*All accounts net and payable* 30 *days after date of invoice.*"
"*Account subject to* $2\frac{1}{2}$ *per cent. discount if paid on or before* 10*th December next. Otherwise net.*"
"*A/c net. Interest at* 5 *per cent. per annum will be charged after* 10*th December next.*"

When accounts are overdue (*i.e.*, when payment is not made at the proper time), a copy of the statement is sent at intervals. Such copies may be endorsed somewhat like this :—

1*st.* "*This account is overdue. Your immediate attention will oblige.*"
2*nd.* "*A/c two months overdue. Kindly remit by return.*"

If a comment of this kind does not obtain payment, a collection letter is sent requesting payment, and eventually legal steps may be taken to obtain payment from a defaulting debtor.

Payment of Accounts.

Payment for goods received may be made by cash, money-order, postal-order, cheque or bill, but probably the only form of payment which will give the sender any difficulty is the bill of exchange. Bills of exchange are treated fully in Chapter 40,

but here it may be noted that a debt due on a certain date may be settled by the creditor "drawing" on his debtor an order requesting payment on the date mentioned. The debtor should then signify his assent to the order by "accepting" the bill, which the creditor may either retain until the "due-date" (on which it is payable) or discount (sell) to his banker. If the debtor fails to pay the bill on its due-date he is said to "dishonour" it and he may be sued for payment. Bills may be used to settle "Current Accounts" between two parties (a "current account" being one recording the state of mutual indebtedness between the parties) or to settle several invoices in one operation. This is done by what is known as the "Average Due Date" method.

Thus, suppose *A* sells three batches of goods to *B* which he invoices out at the following rates :—

DATE OF INVOICE.	AMOUNT.	DUE-DATE.
Jan. 1 . . .	£1000	March 1
Jan. 20 . . .	2000	April 10
Feb. 15 . . .	1000	April 20.
	£4000	

The total payable is £4000, and it is required to know on what date the £4000 should be paid in order to satisfy both *A* and *B*. The account is averaged as follows :—

March 1	is 0 days from March 1, and	0×1000=		0
April 10	,, 40 ,, ,, ,,	40×2000=		80,000
April 20	,, 50 ,, ,, ,,	50×1000=		50,000
		£4000		£130,000

$$130{,}000 \div 4000 = 32\tfrac{1}{2}$$

so that 32 days from 1st March, *i.e.*, 2nd April, is the average due-date. Thus, if payment is made on 2nd April, both *A* and *B* will be satisfied, neither party gaining interest at the expense of the other. This may be done either by payment of cash on that date or by *B* giving *A* beforehand a bill due on that date.

Receipt.

Upon payment of an account by a creditor of the firm a receipt should always be forwarded on the official printed form of receipt which should state how payment has been made, *e.g.*, by cheque or by cash, and for an amount of £2 or over must bear a 2d. stamp. It is a good policy to state on all invoices, statements, etc., that the firm's official form of receipt only will be recognised, and as an effective internal check on the cashier's department, this should always be bound in book form, both the receipt and counterfoil being numbered consecutively, and the books placed under the control of a senior official for

issue to the cashier, who will be made responsible for seeing that receipts are sent out for all payments received. In this way fraudulent appropriation by employees of monies paid to the firm is rendered difficult.

Many firms use a form of carbon duplicate receipt book in which an exact copy of the receipt as issued is automatically taken when the original is written by the cashier, and only one writing is required instead of two when counterfoils are used. In some cases, too, a number of receipts—say eight or ten—are provided on one page of the receipt book, and on the carbon duplicate columns are provided for (*a*) the total amount paid; (*b*) the discount allowed; (*c*) the net total posted to the ledger; and (*d*) the folio of the ledger account concerned. As each page of receipts is completed, the amounts in the respective columns are totalled and are carried forward if necessary. At the end of the day, the grand totals of cash received and of discount allowed are transferred to the General Cash Book. By this method, therefore, a considerable amount of time and trouble are saved, and the duplicate book fulfils the dual purpose of receipt book and subsidiary cash book.

QUESTIONS BEARING ON CHAPTER 26

1. What is a credit note, and for what purpose is it used? (*R.S.A., Stage I*).

2. Goods are invoiced at £126 3*s.* 6*d.*, less 2½ per cent. cash discount for immediate payment; monthly account net. What is the rate of interest per cent. per annum involved in this transaction? (Assume that the payment is made at exactly one month after the receipt of the goods.) (*R.S.A., Stage I.*)

3. What distinguishes a statement from an invoice? Draw up each, referring to the sale by James Jones & Co. Ltd., to Henry Thomas of 25 bags of granulated sugar, 1 cwt. each, at 29*s.* 2*d.*, and 12 bags of castor sugar, 2 cwt. each, at 34*s.* Terms 14 days net, carriage forward. (*R.S.A., Stage I.*)

4. On 1st December 1927, a merchant has acceptances drawn on him by the same firm as follows:—

£240 due 1st January 1928.
£400 due 13th February 1928.
£360 due 16th March 1928.

He desires to pay these in one sum. When should he make the payment so that neither he nor his creditor will suffer any inequality as regards interest? (*A.I.C.A., Inter.*)

5. Roberts & Co. are timber merchants in a seaport town, importing timber and selling it to dealers in building materials and to others. Under what circumstances would they use the following documents: (*a*) invoice, (*b*) delivery note, (*c*) quotation? (*R.S.A., Stage II.*)

6. A debtor agrees to accept a three months' bill of exchange to be drawn on him for the total of the following invoices, which are each subject to three months' credit:—

		£	s.	d.
1929.	January 1	150	9	6
	" 12	25	10	9
	February 3	61	5	0

As from what date must the bill be drawn? Exhibit the form it will take. (*R.S.A., Stage II.*)

7. Brown & Jones Ltd. have received an order from John Smith. Draft a letter from Brown & Jones to John Smith asking for cash with the order, or a reference.

Draft letter from John Smith in return, giving the name of the Dublin Bank Ltd. as reference.

Draft a letter from Brown & Jones Ltd. to the Dublin Bank Ltd., asking if John Smith is good for credit up to £100. (*C.A., Inter.*)

8. A merchant buys a lot of 50 tables at £3 10*s*. each, wholesale. Delivery charges amount to 10*s*. He pays cash, obtaining a discount of 3¾ per cent. Rule and write out an invoice for the goods and then rule and make out a statement of account for the transaction, and receipt the statement. Fill in any particulars you please so as to make the documents seem as real as possible. (*R.S.A., Stage I.*)

9. Write an order for drapery goods sent by a retailer to a wholesale warehouse. Give an acknowledgment of the receipt of the order. Pay especial attention in both letters to particulars concerning date of delivery and terms of payment. (*R.S.A., Stage I.*)

10. Show clearly the distinction between a Trade Discount and a Cash Discount. (*C.A., Inter.*)

11. What is a *pro forma* invoice, and for what purpose is it used? (*C.A., Inter.*)

12. Explain: (*a*) price-list; (*b*) price-current; (*c*) *pro forma* invoice. (*London Chamber of Commerce, Higher Certif.*)

13. *A. B.* & Co. Ltd. desire to purchase from *C. D.* & Co. Ltd. 20 gross of 2½ pint kettles at £35 per gross, subject to 10 per cent. trade discount and 5 per cent. for cash in one month. Give the form of the order, adding such particulars and stipulations as you think necessary and usual. (*R.S.A., Stage I.*)

14. Explain the purpose of a "Statement of Account" as distinct from the purpose of an "Invoice." Give a specimen of each, containing five items, and introduce, where appropriate, references to cash discount or to trade discount. (*R.S.A., Stage II.*)

15. Define "average due-date." For what purposes is it used? What is the average due-date of the following purchases?—

January	1	Goods purchased	£120	due	February	3
,,	15	,,	£60	,,	,,	18
February	13	,,	£90	,,	March	16
March	1	,,	£25	,,	April	4
,,	10	,,	£180	,,	,,	13
,,	20	,,	£140	,,	,,	23

(*C.A., Inter.*)

16. What would you do in the following circumstances:—

(*a*) You receive goods not up to the quality of the sample upon which your order has been based;

(*b*) You receive an invoice for goods charged at 5*s*. 6*d*. per yard, when the relative order states 3*s*. 6*d*. per yard?

(*London Chamber of Commerce, Certif.*)

17. What system would you recommend a firm of wholesale merchants to adopt for the purpose of obtaining the necessary information and keeping the necessary records of the amount of credit each customer should be allowed? (*C.A., Inter.*)

CHAPTER 27

THE MANUFACTURING CONCERN

THERE are very few commodities which can be extracted from Nature in a form suitable for human consumption. With the exception of certain food-stuffs, it may safely be said that practically all raw materials must go through some form of manufacturing process before they are fit to be put on the retail market. Manufacturing concerns are of innumerable variety, from the small workshop turning timber into chairs to the huge organisation producing mammoth steamships; but all come within the one category—they are engaged in changing the form of existing materials in order to render them more valuable to the human race.

The broader aspects of business organisation have been discussed in Chapter 11, and in this chapter it is proposed merely to detail very briefly the main features of the organisation and methods of a typical manufacturing business. It must be understood that manufacturing businesses are so varied in type that it is impossible to give any detailed scheme of organisation that can be taken to apply to factories as a whole or to any factory in particular.

As a general rule, the organisation of a factory may be divided into (*a*) *the commercial side* and (*b*) *the technical side.* The latter, usually known as the *Works*, is devoted to production; that is, to the working up of the raw material. The former is concerned with the purchase of materials and the distribution of the final product; it performs all the functions of buying and selling connected with the business. On the commercial side will be the sales manager, with a number of salesmen and travellers under his direction, and a buyer, responsible for the purchase of all materials and stores. On this side also will be found the cashiers, accountant, secretarial department, invoicing departments and so on, all of whose functions have already been described.

THE TECHNICAL SIDE

The technical side consists of a number of closely related manufacturing departments, each with its own superintendent or executive head immediately responsible to the *Works Manager*, who is himself responsible to the *Technical Director*.

The executives under the works manager may include the *Works Engineer*, responsible for the care of all the plant, machinery and power; a *Production Manager* who is responsible for the actual production and for the manufacturing processes; a *Planner*, who personally supervises the factory lay-out and the general planning of the operations, though in a small concern these duties will be discharged by the production manager; a *Progress Manager*, who sees that the plans of the production manager or of the planner are carried into effect and that no unnecessary delays take place as the work passes from one process to another; and, finally, a *Storekeeper* whose status varies. In some factories he may be a man of some authority, whereas in others he is of little importance. As his name implies, he is in charge of all stores.

In addition, the works manager will have under his control a *Drawing Office*, in the charge of the *Chief Draughtsman*, where the designs and plans for all work undertaken are produced and issued for the guidance of those responsible for the manufacturing processes, and a *Costing* or *Estimating Department*, under the charge of a *Cost Accountant* or *Estimator*, where the cost of each process and of the final product is accurately determined for the information of the directorate and of the works manager.

Selection of the Site.

The selection of the right site for a factory is a matter of the greatest importance, for if this is wrong the business is severely handicapped from the outset. In this connection the chief points for attention are—

(1) Cheap Source of Power.—The factory must usually be near a coalfield, or water-power of some kind; although nowadays, with the development of electricity supplies, there is a tendency for industries to become less localised, because power is obtainable throughout the country at rates which are steadily being reduced.

(2) Facilities for Transport.—In the case of heavy goods where the costs of transportation are high, it is important that the factory should be situated as near as possible not only to the sources of supply of the raw materials, but also to satisfactory outlets for the finished goods.

(3) Possibility of Expansion.—Spare land must be available for the extension of business.

(4) Buying Facilities, *i.e.*, nearness to supplies of raw materials, so that they may be obtained cheaply and at a low cost of carriage. This is not so important to-day as it was in the past, with the improvement in transport facilities and lowering of their costs.

(5) Labour Supply.—An adequate supply of efficient

labour must be available in close proximity to the works, or means must be provided whereby such a supply can be brought to the works, *e.g.*, by the provision of houses or omnibus services.

Subject to these considerations, the site chosen for a factory may be one of three types, *viz.*, City, Suburban or Country, and each of these has its own special advantages and disadvantages.

City Sites have the advantages of proximity to markets, repairs, credit facilities (*e.g.*, banks) and a good supply of labour. Against these must be set high rents and rates, and exacting by-laws. City sites are therefore usually more suitable for small businesses, though in the textile industry, where the labour question is of special importance, even the largest mills are usually situated in large towns.

Suburban Sites.—These have the advantages that land values and rates are not excessive; that good transport facilities are available; and that the workers' rents and living expenses are relatively low. The chief disadvantage is the increased distance from markets for buying and selling. Suburban sites are favourable for small concerns or for large concerns if they are near the source of raw materials.

Country Sites have the advantages of cheap land, low rates, room for expansion and lack of restrictive by-laws. They suffer from the disadvantages that skilled labour is difficult to obtain, that repairs must be carried out by the concern itself, and that they are some distance from buying and selling facilities. Country sites are therefore more suitable for large concerns, since these can import their own work-people, maintain a staff to do their own repairs, and usually maintain offices in some city or cities. With cheapening transport there is an increasing tendency for large manufacturing concerns to move from the town to the country to take advantage of the lower costs.

Factory Planning.

During the last half-century the whole conception of factory planning has been revolutionised. The world has learnt the possibilities and advantages of decentralising its industries, so that nowadays the tendency is to move factories outwards from the centre of the towns into healthier and cheaper sites in more pleasant surroundings.

The Bournville works of Messrs. Cadbury may be cited as an instance. The Bournville of to-day can hardly be called a factory: it is a group of factories and workshops, and a great many other things besides. From the very beginning George Cadbury, with great foresight, planned out all the land he had bought in such a way as to preserve its natural beauties. He even increased those beauties by planting trees and shrubs

and making lawns and woodlands, at the same time setting aside a generous portion for the recreation of the people employed in the works. Then, in 1895, he founded the Bournville Estate, with three hundred acres of land on both sides of the pretty Bourn stream, to form the nucleus of a beautiful village. This has grown to such an extent that there are now four villages covering nearly a thousand acres and having a population of over five thousand people.

Scientific planning, however, implies more than attention to æsthetic considerations. It implies the arrangement of every process with a view to its attaining the maximum of efficiency; the arrangement of processes so that the product takes the "shortest route"; the choosing of the most suitable machines, of the best personnel for the factory, of the most suitable lay-out for the works and the most convenient style of building. In short, every process and every operation must be scientifically "planned" beforehand so that it may serve its purpose efficiently and yet be capable of modification should need arise.

Buildings.

Apart from any special considerations applicable to the industry concerned, the size and shape of the buildings used by a manufacturer will depend on such general considerations as the number of processes the building has to accommodate, and the size and shape of the plant required for these processes. It must then be decided what space is necessary in each department for (*a*) departmental stores of material which must be on hand without delay; (*b*) inspection of the finished product; and (*c*) possible extensions.

Many problems arise with regard to the buildings themselves. Should they be single storey or have more than one storey? What is the most suitable type of construction; of lighting; of ventilation; and of heating? It is not possible in the scope of this volume to do more than deal generally with these matters. A single-storey building needs more ground space, but is cheaper to build, there is no vertical transport, and roof lighting may be secured. In buildings of more than one storey, ground space is saved—an important consideration in city sites where land is valuable or where additional land cannot be obtained—and the disadvantage of vertical transport may be overcome by taking the raw material direct to the top floor and allowing it to proceed by gravity conveyers, shoots, etc., to lower floors.

Works Accommodation and Lay-out.

The arrangement of a factory or works must naturally vary considerably according to the nature of the business, but the ideal lay-out is one where the "shops" are so arranged that the

materials passing through the various processes continue in an unbroken path from each shop to an adjacent one. Obviously the simplest plan is for the materials to pass as nearly as possible in a straight line from beginning to end: but this plan involves a lay-out by which the entrance and exit are very far apart. Usually, therefore, it is found more practicable to arrange for the factory to be in the shape of a horse-shoe, with the entrance and exit close to each other.

For purposes of lay-out, manufacturing industries may be divided into two broad classes: (*a*) *continuous* industries, and (*b*) *assembling* industries.

A Continuous Industry is one in which the processes required to change the raw material into the finished product are performed continuously upon the material as a whole, *i.e.*, there is no separate manufacture of different parts of the product. Such industries are further subdivided into *synthetical* and *analytical* industries.

Synthetical Industries are those concerned with the manufacture of commodities which have to be built up from the raw material, for example, the textile and steel industries. In industries of this type the raw material passes uninterruptedly from one process to another; and the lay-out must provide for a continuous flow through the various departments.

Analytical Industries are those where different products are extracted from the raw material, as, for example, the sugar, flour and meat-packing industries. In these industries buildings of several storeys are the rule, as gravity can be utilised to enable the materials to pass from one process to another.

Assembling Industries are those in which various parts of the final product have first to be manufactured separately, as, for example, the motor-car and shoe-manufacturing industries. In these industries the lay-out must be so arranged that the various parts travel the shortest possible distance to the appropriate points at which they meet the other parts with which they are to be united or assembled.

Transport.

One of the most important problems for any large manufacturing firm is that of transport, for on this depends the collection of all raw materials and fuel required, the carrying of this material into its various processes of manufacture through the different departments of the factory, and the final distribution of the finished goods to the retailers who sell it. Upon cheap and efficient transport depend to a large extent the speed of production and the ultimate price of the goods to the consumer. Hence it will be found that a factory is usually situated near a main railway line, canal or dock, though with the development of road transport many large factories have been established close to important arterial roads.

Internal transport facilities are of particular importance, a point admirably illustrated by the arrangements in force at Bournville. Within and around the factory there are three main systems of transport traffic and many subsidiary systems. The main systems are the rail, the canal and the road lorry. Each of these has its loading and unloading docks and sidings so arranged that there shall be a minimum of delay. It is arranged that the unloading shall be as near as possible to the point where the goods and materials are to be used, and the loading as near the centre of the plant as possible, so that the various finished goods can be brought to the stock rooms and loaded from the packing and despatch departments, with the minimum waste of labour, time and floor space.

But the most perfectly planned internal traffic facilities would break down unless the movement of trains and lorries permitted the even flow of the vehicles through the docks and sidings. If arrivals and despatches became disorganised, the transport department would alternately be so congested and so empty that at one time it would not work properly, whereas at another both men and equipment would be idle. To prevent such disorganisation, the Transport Control Office keeps itself informed of all goods moving towards the factory. Careful records are maintained of all wagons, barges and lorries loading and unloading at any of the company's docks or sidings, and similar records are kept of all present and future despatches. Perfect co-ordination between buying, transport and stores departments on the one hand, and between the transport and despatch departments on the other, makes this steady flow a possibility.

Production Planning.

This involves the planning of every process of manufacture so as to minimise waste and increase efficiency. The Planning Department is given full details of each piece of work as it is undertaken, or of each contract as it is entered into; and its function is to arrange for the planning of operations with the following objects :—

(*a*) To ensure that work passes through the shops with the minimum of delay.

(*b*) To ascertain when deliveries can be promised, and to see that such promises are kept.

(*c*) To organise production so that a maximum output is achieved from the resources available.

(*d*) To avoid either idle time or excessive overtime on the part of the workmen.

(*e*) To co-ordinate the commercial and technical sides of the business.

Every operation should receive consideration so that the operator knows what materials and tools are required, and exactly what he has to do. It should be seen that a first-class man is not put on a third-class job, for this is waste of higher paid labour, and that unnecessary movement on the part of the operator is avoided—*e.g.*, walking to the office, back to the job and then to the stores. All such wasted effort can be avoided by seeing that a store of materials, etc., is conveyed to the operator by a labourer who is less highly paid.

Progress Department.

The most perfect planning is, however, useless unless it is carried efficiently into practice. It is the duty of the Progress Department to follow up the various processes, to prepare job cards, material charts, etc., and to see that all the requirements of the planner are carried out. The Progress Department must also be able to advise at any time regarding the exact position of any job of work, and to apply remedies where delay has occurred.

Raw Material.

Manufacturers obtain their raw materials from various sources and from all parts of the world. Sometimes they produce and transport their own raw material. In other cases they may obtain their material through an agent or a broker, though nowadays it is usual for the buyer of a large firm to journey abroad and make his purchases at the actual sources of production.

On their receipt at the works, the raw materials will be taken under control by the *stores controller*, whose duty it is to see that they are available as and when required in the various processes. To this end he must adopt a scheme whereby everything is stored in the most suitable place for both receipt and issue, and he must ensure that the stock of every article shall neither fall so low as to cause any delay in production, nor rise so high as to involve an unprofitable locking-up of capital or waste of store-room accommodation.

In arranging the lay-out of the stores, he must provide an accessible place for the receipt and checking of goods, and secure storage as near as possible to the place where they will be required. In this connection the stores controller must be in close consultation with the Purchasing Department and the Planning Department, and probably also with the Cost Accountant.

THE COMMERCIAL SIDE

The organisation of the Commercial Side of a Manufacturing Business closely corresponds with the organisation of any trading

concern. There will usually be a Sales Department, a Purchases Department. an Advertising Department, a Staff Department, an Accounts Department, and so on. These are dealt with fully in the chapters devoted to the organisation of Trading Concerns, and here it is necessary to refer only to certain points of special interest to manufacturing concerns.

Sales Policy.

The sales policy of a manufacturing business naturally varies according to its nature. In many classes of manufacture, *e.g.*, shipbuilding, goods are made to definite orders, but in the majority of cases, *e.g.*, bicycles or soap or biscuits, they are produced in anticipation of demand. In the latter cases the duty of disposal falls upon the Sales Department.

In a well-organised concern the Sales Policy is scientifically determined by the chief executive, after a careful analysis and consideration of figures supplied by the Costing and Statistical Departments which are used to discover the volume of sales likely to yield the greatest net profit; of reports from the Purchases Department as to conditions in the raw material market; and of reports from the Sales Department as to conditions in the selling field. Only when the Sales Policy has been finally determined in this way will the Sales Department be authorised to plan its campaign for carrying out the wishes of the directorate or management.

Marketing.

The manufacturer may produce for home or for foreign markets. A manufacturer producing for home consumption may adopt various methods of disposing of his goods: he may sell direct to the consumer; direct to the retailer; or to the retailer through the medium of the wholesaler. His choice will depend largely upon the nature of his product.

Where the product is of the class described as "specialty" goods, a policy of direct sales to the consumer is frequently adopted. Such goods need "pushing": a market for them does not exist but must be made by bringing to people's notice the advantages offered by the goods. The growing tendency to direct selling is mentioned in Chapter 28.

Certain other goods, such as wireless sets and bicycles, well-known proprietary brands of jams, teas, etc., are extensively advertised by the manufacturer. Since such goods are usually well established products, the retailer can estimate the demand fairly reliably and in consequence many such goods are sold direct to the retailer by the manufacturer. With other classes of products, *e.g.*, clothing, this policy is not advantageous and the manufacturer finds it more profitable in the long run to take advantage of the services of the wholesaler.

The chief methods whereby the manufacturer approaches

the wholesaler or the retailer are (*a*) by advertising, (*b*) by personal solicitation by travelling salesmen, and (*c*) through branches and agents.

By advertising his goods the manufacturer creates a demand for them in the shops. If the retailer ignores this demand he loses would-be purchasers, who will go elsewhere. In this way, the manufacturer by creating a demand for his goods compels the shops to buy from him, and, incidentally, assists the shopkeeper to increase his sales.

Again, in districts where the wholesale demand for his produce is great the manufacturer may have a selling staff of his own in that locality or may keep a selling agent to dispose of his goods exclusively. The advantages of this policy are that the entire efforts of the staff or agent are devoted to expanding the sale of his goods; the buyer has a man on the spot to whom he can explain his needs or with whom he can lodge complaints; and every possible chance of an order will be followed up. Naturally, however, this arrangement is only possible to a large business; and even a large business will usually have certain areas where demand is not so large and where other methods must be adopted.

Probably the most common method of approaching the consumer or buyer is through the intermediary of travellers who are employees of the manufacturer and receive a salary. They call round on all his customers in a certain district and take orders for goods. They also call on other dealers in the neighbourhood who are not already customers in the hope of acquiring them as customers. As an inducement to increase sales they receive a commission on turnover in addition to their salary.

There remains the method of selling through an agent. This agent may act for one manufacturer alone, but usually he represents several. He provides his own office and staff and is usually paid solely by results, *i.e.*, on a commission basis, although in some cases he may act as principal, buying and selling on his own behalf. The disadvantages attaching to the employment of such an agent are that, as he may be acting for competing firms, he may not give his best attention to the sales of the product entrusted to him, and may not secure as large a volume of sales as an employee would do. This is particularly likely where a competing firm grants a higher rate of commission. In order, therefore, to ensure the whole-hearted co-operation of such agents, manufacturers frequently grant them the *sole* or *exclusive* selling rights over a certain area. The agent then knows that provided his returns are satisfactory he is assured of a specified sales field; he can proceed to develop that field secure in the knowledge that the benefits of that development will not fail to accrue to him, with the result that he is much more likely to push the sales of the goods concerned.

There is no clear-cut distinction between concerns who sell through independent agents (on commission) and those who sell through their own travellers or selling-branches. In some cases a separate subsidiary company is formed to take over the selling activities ; in fact there has in recent years been a flood of small companies formed to take over sole selling-rights for certain articles in restricted regions.

The advisability of appointing an agent depends entirely upon the circumstances of each case. A manufacturer who is introducing a new commodity or who is penetrating a new market may find it advantageous to employ as his agent a firm of high standing which is already dealing in similar lines or in the new market. In this way he is able to benefit from the specialised knowledge and experience of the agent and for this reason it is clearly advisable for him to spare no expense in securing the services of the best agent in each area. Moreover, in order to avoid friction it is desirable that the areas of the various agents should be so allotted as to eliminate competition between them.

Price Fixing.

When manufacturers sell "branded" or "proprietary" goods to wholesalers, or, indeed, to retailers, they sometimes incorporate a term in the contract of sale whereby the buyer agrees not to sell the articles below certain stated prices. The object of this is to enable the manufacturer to dispose of his goods more easily, for whereas a wholesaler or retailer may be disinclined to take the goods if there is a risk that other traders will undersell him, he will feel more secure if he is given an assurance that no under-cutting can take place. The manufacturer facilitates his sales activities, the wholesaler or retailer safeguards his interests, and the consumer benefits from more stable prices. The latter may, however, lose part of the benefit he might gain from free competitive prices. On the other hand, it is sometimes claimed by manufacturers that their object is to limit the profit made by the retailer by preventing him from charging extortionate prices.

Price agreements of this nature are legally enforceable by the seller. The difficulty arises, however, that if the first buyer sells the goods the new buyer has no restrictions imposed on him and may sell at any price. To overcome this the agreement is often extended to include a promise by the first buyer that he will place the same condition on any subsequent sale. In negotiating agreements of this kind with wholesalers or retailers, manufacturers often support their claims by refusing to supply the purchaser with any of their products unless he falls in with the usual terms for each of them. To a certain extent this form of price agreement (known as a "tying agreement") has the effect of discouraging the sale of cheap substitutes.

In the same category as price agreements may be placed *price discrimination* which is sometimes practised by monopolistic producers. This may involve either the favouring of one trade at the expense of others or the sale of a product in one district or country at lower prices than are charged in others. The object of such discrimination may be either to destroy competition in certain places or to favour powerful customers, or, possibly, to maintain sales in a place where strong competition has to be met. In so far as the method is adopted for the purpose of strengthening a monopoly it is to be condemned, but where the object is purely to stabilise sales there is some justification. An instance of a case where discrimination is fully justified is the policy of fixing railway rates on the principle of charging " what the traffic will bear."

QUESTIONS BEARING ON CHAPTER 27

1. Describe the general organisation of any factory or works with which you are acquainted. What general principles do you consider may be based on the experience you have had? (*R.S.A., Stage III.*)

2. What methods are commonly adopted by manufacturers to influence or to control the retail selling prices of their products? Do you consider " the increasing tendency of manufacturers to dictate concerning the retailing of their goods " is advantageous (*a*) to the retailer (*b*) to the general public? (*R.S.A., Stage II.*)

3. Explain the work and duties of a manufacturer's agent. How does he differ from a sole or exclusive agent? (*R.S.A., Stage II.*)

4. Contrast the manufacturer's agent with the independent agent from the point of view of efficiency as middlemen in wholesale trade. How are these agents usually remunerated for their services? (*R.S.A., Stage II.*)

5. What are the duties of a Stores Controller?

6. State the principal points which would be considered by a manufacturer in choosing a site for his factory.

7. What are the principal disadvantages of systems whereby manufacturers employ agents to sell their goods?

8. Explain in outline the essential features of an efficient internal transport organisation.

9. What are the principal departments usually found on the works side of a manufacturing business?

10. Compare the advantages and disadvantages of city and country sites for a factory.

CHAPTER 28

THE WHOLESALE TRADE

The wholesaler, or the wholesale trader, is a trader who purchases goods in *large* quantities from manufacturers and resells to retailers in *smaller* quantities. The true wholesaler is himself neither a manufacturer nor a retailer but acts merely as a link between the two.

The Function of the Wholesale Merchant.

The activities of the wholesaler are not confined merely to the operations of buying and selling; it is also his business to forecast, to stimulate and to interpret the desires of his customers. He is in many cases the arbiter of what shall be produced by the manufacturer, and often makes suggestions as to the type of goods or materials likely to be required. He performs two very useful functions. On the one hand he helps the manufacturer who wishes to concentrate on his own particular work and not to bother with supplying his goods in small quantities to the retailer; and, on the other hand, he helps the retailer by supplying him with goods in just the qualities and quantities he requires, so making it unnecessary for him to carry either unsaleable goods or heavy stocks of his usual lines.

The wholesale merchant, moreover, helps to keep prices steady. If there were no wholesale warehouses and goods had to be sold as soon as they were made or imported, prices would fall heavily when the demand was light or production considerable, and would rise sharply when demand was great or production small. The wholesaler, however, buys when trade is slack and prices low, and sells from his accumulated stocks when prices rise again. In this way he helps to even out price movements and to relieve retailers and manufacturers of much of the risk of such price movements as do occur.

The Wholesaler as Exporter and Importer.

Though, as a rule, large wholesale warehousemen do not deal direct with buyers abroad, in certain trades they have taken a large share in the export business. Thus, in the drapery and grocery trades the wholesale houses commonly do quite a considerable foreign trade and, in many cases, have their own agents established in other countries. More often, however, it is found that the warehousemen act rather as suppliers to

export merchants (see Chapter 34) who get their orders from abroad and place subsidiary contracts with manufacturers and wholesalers in this country. Actually, of course, the export merchants are themselves middlemen, but they are of a different type from the wholesaler, inasmuch as they sell as well as buy in *large* quantities, whereas the true wholesaler buys in large quantities and sells in smaller lots.

In the import trade the wholesale warehouseman is more active. Manufactured goods reach this country mainly through the hands of the wholesaler who sends his buyers abroad to seek out goods. Certain of his goods he may obtain by placing orders with the agents in this country of foreign manufacturers, whilst others he may obtain from the true "import merchants" who, unlike the export merchants, do undertake the functions of wholesalers, for they import in bulk and sell in smaller quantities. The import merchant is most important in the raw materials trade where it is found that goods often pass through several hands before reaching the wholesaler.

Functions of the Wholesaler in Relation to the Manufacturer.

By buying in large quantities, the wholesaler enables the manufacturer to benefit from the economies of large-scale production. The wholesaler "collects" orders from numerous retailers and passes them on in bulk to the manufacturer who is most capable of producing the type of goods required. In this way the manufacturer is not only saved the expense of obtaining a large number of small orders and despatching many small parcels of goods, but he also reaps the benefit of procuring orders for goods of a more or less standardised type. Moreover, the orders given by wholesalers to manufacturers indicate the trend of public taste, and bring to the notice of the manufacturer any change in the direction of demand, so permitting him to regulate his production accordingly.

The wholesaler performs an even more important service to the manufacturer by relieving him of the necessity for carrying large stocks, thus enabling him either to release his capital for further production, or to carry on his business with less capital than would otherwise be necessary. Largely for this reason manufacturers do not as a rule carry large stocks, but produce principally to order. The exceptions arise when they regularly perform the functions of wholesaler, or when in slack periods they continue to manufacture for stock in order to cover overhead expenses.

Functions of the Wholesaler in Relation to the Retailer.

To be successful a retailer must, in the majority of cases, carry a varied stock, but owing to lack of space and dearth of capital he cannot hold large quantities of each type of commodity which his customers require. The wholesaler fills this

breach in that he constitutes a source to which the retailer may turn for replenishment of his stock in small quantities at frequent intervals. The wholesaler thus relieves the retailer as well as the manufacturer of the trouble and expense of holding large stocks, and enables him to carry on business with less capital than would otherwise be necessary. Furthermore, the stocks held by wholesalers enable retailers to obtain supplies more quickly than they could from manufacturers, for, as already stated, manufacturers usually produce only to satisfy orders actually received. Without the wholesaler, therefore, retailers would of necessity have to wait longer for the execution of their orders or, alternatively, they would have to place their orders sooner—action which, in many cases, would be impracticable.

Another direction in which the wholesaler benefits the retailer is in passing on to him some of the advantages of specialisation. The retailer has of necessity to carry a varied stock of goods and cannot therefore be expected to have expert knowledge of conditions in the markets for each. The marketing function is performed by the wholesaler. He specialises in one line of goods and is able to take advantage of favourable fluctuations in prices. The specialisation extends in both directions: the retailer buys from the wholesaler whom he finds most satisfactory, and the latter favours those manufacturers who his experience has taught him produce the best or cheapest goods. Thus the retailer benefits not only from his own experience but also from that of his suppliers.

It has been stated that wholesalers keep manufacturers informed of changes in demand. In the same way, wholesalers bring to the knowledge of retailers new types of goods for which a market may be made. This information they convey by personal calls through their travellers and salesmen; by displays in their show-rooms; by sending out price-lists and by other forms of advertising.

Still more important is the financial assistance given by wholesalers to retailers in those trades where wholesalers regularly allow credit to their retail clients. This has the effect of increasing the working capital of the retailer; for he can obtain his goods on credit, and, by selling on a cash basis, can pay the wholesaler with the money received from his customers. The retailer usually pays for such accommodation by forgoing his cash discount. Not all retailers, of course, sell on a cash basis; many of them allow credit to their regular customers and some give credit to all buyers. In both these cases, the retailer obviously requires more capital with which to conduct his business, and it is largely on the wholesaler that he relies to obtain it.

To a large extent, the amount of credit allowed by wholesalers depends on the class of goods dealt in. A wholesale draper allows more credit to retailers than, for example, a

wholesale tobacconist or a wholesale ironmonger. Generally speaking, the degree to which wholesalers grant credit depends upon: (a) whether the retailer gives credit; (b) whether the retailer has to carry large or small stocks; (c) the rapidity of the retailer's turnover.

When the retailer gives extensive credit to his customers or when he has to carry heavy stocks or when his stock is turned over but slowly, he needs a proportionately larger working capital, and, consequently, he expects and usually receives credit from the wholesaler. On the other hand, the predominance of cash trading, small stocks and rapid turnover, do away with the necessity for credit.

Credit Sales in the Wholesale Trade.

For the predominance of credit sales in the wholesale trade there are also two other reasons. First, the average size of an order in the wholesale trade is considerably larger than in the retail trade, whilst orders from one customer have very often to be satisfied from several departments of the warehouse. Consequently, if sales were made on a cash basis, the buyer, before he could settle up, would have to wait some time for the various departmental slips to be collected and his bill (invoice) made out. It is partly to obviate this waste of time that accounts are settled later, even by retailers who could well afford to pay cash and obtain additional discount.

The second cause, and one that is possibly more important, is the fact that the customers of a wholesaler have usually to make frequent purchases from him. If each of these were to be settled for cash there would be a considerable waste of time and labour. Hence it is usual for the wholesaler to render his customers' accounts at regular intervals—monthly or quarterly—and for payment thereof to be made in one lump sum. Moreover, it is usual, on the commencement of business between a wholesaler and his customer, for arrangements to be made that the latter shall pay his accounts within an agreed interval, say, seven or ten days, after the dates on which they are rendered. If, then, payment is made promptly, the retailer receives a cash discount, but he loses this if he delays settlement until after the expiration of the agreed credit period.

It is true that both factors mentioned above operate to some extent in the retail trade, but credit is not so commonly granted there because a third essential is often lacking. Credit must be based on *confidence,* and confidence implies a fair degree of permanence in the relations between the parties. In this direction there is a marked difference between wholesale and retail selling. The wholesaler sells the bulk of his goods to regular clients, whose standing he knows fairly thoroughly. The retailer, on the other hand, sells to a clientèle that changes rapidly, and it is usually only to his permanent customers

that the retailer is willing to give credit, though of course the strength of competition may force him to grant it to others as well.

Wholesale and Retail Combination.

As an aspect of the movement towards "*integration,*" *i.e.*, combination of different stages in the marketing function, there is a marked tendency nowadays for the functions of wholesaler and retailer to be combined in one business. Usually where this occurs, as, for example, in the fruit, tobacco and drapery trades, the wholesale side has developed from the retail with the main object of attaining economies in buying. In other cases, the wholesale function has been the earlier, and the retail side has been set up because the wholesaler has attracted such a large clientèle of buyers outside the trade that he has found it convenient to establish a special department to deal with their custom, or because he has seen the need in a certain district for a retail shop which he could conveniently run as part of his business. Other possibilities might be mentioned, but these examples serve to illustrate how the development may take place.

In the majority of cases, however, the association of the wholesale and retail function has developed as a result of retailers buying direct from manufacturers, *i.e.*, becoming their own wholesalers, in order to eliminate the middleman's profits. Where this can be achieved the combination is definitely advantageous. It is possible, however, that the additional costs incurred may exceed the amount saved, and in most cases, particularly where the business is only small, the retailer finds it far more profitable to employ the services of a wholesaler.

Manufacturing and Wholesaler Combination.

A successful manufacturing concern frequently decides to do its own selling to retailers, thus combining the functions of manufacturing and wholesaling. Conversely, wholesalers with large businesses have found it profitable to manufacture some or all of the commodities which they formerly obtained from manufacturers. In some cases the two functions are combined by the amalgamation of a wholesale business with a manufacturing concern. But in neither case does the manufacturer entirely eliminate the expenses of the wholesaling function. Indeed, in the majority of cases he still has to incur practically the same gross expenses of distribution and advertisement, though he is able to effect certain economies, *e.g.*, the cost of transport from factory to warehouse, and thus to divert to himself part at least of the wholesaler's profit. The most notable examples of manufacturers serving the retailer direct are in the case of "branded" goods, where there is a ready and steady sale without any need for the services of the wholesaler.

Generally speaking, the manufacturer's incentive to "direct selling," *i.e.*, sales made direct to the consumer, is the possibility of retaining for himself the profit usually made by the wholesalers and retailers.

Certain general rules may be laid down in this respect:—

(*a*) Direct sales are usually not profitable unless the volume of business justifies the setting-up of a separate sales organisation.

(*b*) The saving of time by direct sales is advantageous where the product is perishable. But the producer must be quite certain of a quick sale.

(*c*) A business producing a varied range of goods is more likely to derive benefit from direct selling than one which produces only one article.

(*d*) The larger the size of the average order the greater, as a general rule, will be the benefits of direct selling.

(*e*) Direct selling is seldom profitable in the case of a purely seasonal commodity, since the sales organisation will lie idle during the slack period, unless (as in the case of a well-known firm of ice-cream manufacturers) another "line" can be run during the slack season.

(*f*) A product which requires considerable technical knowledge on the part of salesmen (*e.g.*, accounting machines) is a suitable subject of direct sales, since the concern's own salesmen are best equipped to convince the consumer.

Is the Wholesale "Link" Necessary?

It is frequently contended that the functions of the wholesaler could be dispensed with, and that the producer and retailer could between them perform the duties of the middleman. In general it may be stated that to the small retailer and to the small manufacturer the wholesaler is essential. By operating on a large scale he relieves them of innumerable duties which they would find it expensive and difficult to perform. In the absence of the wholesaler, as we have seen, the retailer would find it necessary: (*a*) to hold large stocks of a variety of goods, thus locking up his capital; (*b*) to assemble these goods from a number of manufacturers or producers, probably widely scattered; (*c*) to arrange for the carriage, packing, and grading of the goods; and (*d*) to bear the risk of price fluctuations and changes in fashion. It is this risk-bearing which, in the majority of cases, is the deciding factor. The large retail businesses, and particularly the large departmental stores and multiple shop concerns, are financially in a strong enough position to bear these risks, and it is in such businesses that the tendency to eliminate the wholesaler is most prominent. Moreover, they have a large turnover which enables them to buy in

bulk with less risk of the stock being left on hand owing to changes in demand, and possess large warehouses in which to store a variety of stock. Even when they are left with large stocks on hand for which the demand has fallen, they are in a position to advertise on a large scale and can promote extensive "sales," during which they get rid of their stocks with little, if any, loss.

Similar advantages and disadvantages accrue to the manufacturer who performs his own wholesaling. The disadvantages may broadly be considered as a loss of those services which the wholesaler renders to the manufacturer, whilst the advantages are chiefly those of independence and the saving of the middleman's profits and expenses.

Whether or not it is advisable or profitable to eliminate the wholesaler, and for producers and retailers to deal directly with one another, is therefore a matter to be decided in each particular case. For small retailers and for producers of perishable goods particularly, the wholesaler is probably essential, but in the case of many of the larger concerns he is probably an unnecessary link.

THE WHOLESALER'S ORGANISATION

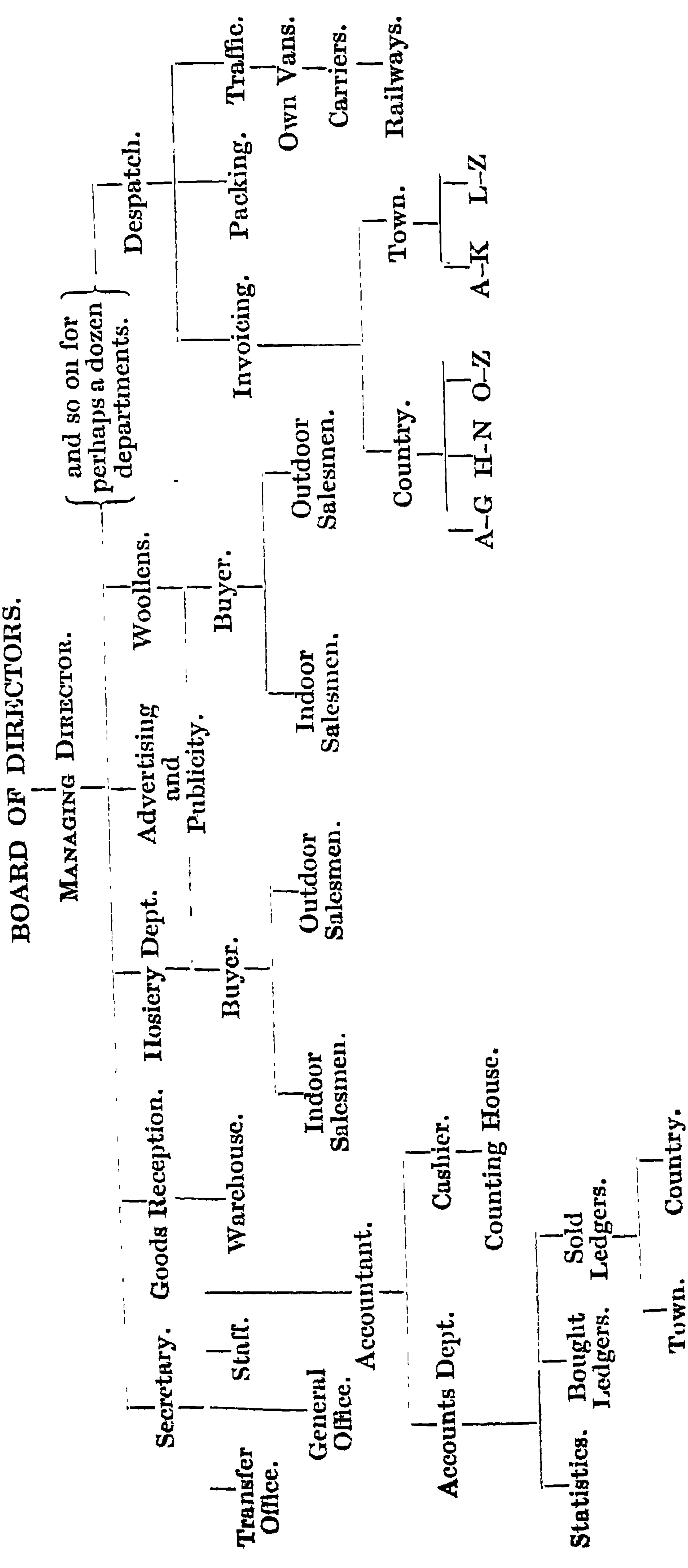
As wholesale merchants buy goods in quantity their undertakings are necessarily on a large scale and require careful organisation. This organisation, in its broader aspects, closely resembles that of a big departmental store, the business being divided into departments, each of which forms a separate unit under the charge of a departmental manager.

The departments fall into two divisions—Administrative and Executive. The administrative staff is concerned with such duties as finance and accounts (including credit), correspondence, records, filing and general administration. These duties are similar to those of other businesses and have already been discussed in Chapter 11. The number and extent of the executive departments naturally vary with the size and type of business, but generally they include the Selling Departments, the managers of which are also the buyers, the Publicity Department, the Warehouse, where the goods are stored, the Despatch Department, which includes also the Invoice Department, and the Packing Sections.

Locality and Premises.

As the wholesale merchant deals almost exclusively with the retail trade, the question of premises is not as important to him as it is to the retailer. The main consideration is that the premises should be reasonably accessible to trade customers, and conveniently situated for the delivery and despatch of the

ORGANISATION OF WHOLESALE WAREHOUSE (SOFT GOODS)



type of goods stocked by the wholesaler. The general tendency is for the large wholesale concerns to be concentrated in the business centres of the larger cities. In London, Eastcheap is the centre for groceries and provisions, Mark Lane for corn, Wood Street for wholesale drapery, and so on.

Again, the premises of the wholesaler as compared with those of the retailer will generally be equipped in a severely practical manner. The retailer has to appeal to individual, and especially feminine, taste, and to this end he must apply his attention to tasteful display, well-fitted premises, comfortable chairs and the like. Similarly, the departmental store endeavours to create an atmosphere of comfort and luxury by its well-equipped tea-rooms, lounges, and other social amenities. The wholesaler, on the other hand, has to deal chiefly with the buyers from retail shops, and he can afford to dispense with these attractions, for he knows that such things are not likely to impress the business man. At the same time, there is a growing tendency on the part of wholesalers to cater for the comfort of clients, and, in some trades especially, " the trade " is treated in much the same manner as the potential retail buyer.

The Warehouse.

Generally, wholesale warehouses are classed according to the type of goods in which they deal. There are provision and grocery warehouses for such goods as tea, wheat, flour, and coffee; drapery and clothing warehouses dealing with cottons, woollens, and other textile products; timber warehouses, hardware warehouses, furniture warehouses, and so on in almost infinite variety. There are also subdivisions of these various types. In the woollen trade, for example, there may be wholesalers dealing exclusively in woollen hosiery, others specialising in woollen underwear, others in knitting wool, and so on.

Although as a general rule the wholesaler specialises in one class or group of commodities, there is considerable variation as between wholesalers in the extent to which they specialise. Some, for instance, sell only tobacco and cigarettes; others might add to this the selling of confectionery, and so on. Again, one wholesaler may stock only one article, especially if he is the sole distributing agent for that product, whereas another may stock articles of extraordinary variety. In the grocery trade it is quite common to find wholesalers who distribute practically the whole range of groceries commonly stocked by retailers, and the same applies to the ironmongery, drapery, and other trades. Indeed, in all large cities there are to be found a class of wholesalers—the true " wholesale warehousemen " class—who are, in effect, " universal suppliers." They occupy in relation to retailers a position similar to that held by departmental stores in relation to consumers.

There are considerable differences, too, between the whole-

sale concerns dealing in raw materials and those interested in manufactured goods. The latter often hold quite small stocks. Their warehouse is little more than a showroom, and may hold either just sufficient stock to last only for a few days, or merely samples of the various items of merchandise which the wholesaler is in a position to supply. In such cases, the orders may be fulfilled from the wholesaler's own stocks, or they may be sent direct from the manufacturers or from wholesale suppliers, or partly from one and partly from the other. Firms of wholesale ironmongers, for instance, undertake to supply retailers with practically any article which they may require in their particular line. The smaller articles, *e.g.*, tools and cutlery, will be assembled from the wholesaler's stocks in his warehouse, but the larger articles, *e.g.*, mangles, wash-tubs, and gas-stoves, are sent direct from the factory—either that of the wholesaler himself or of an independent manufacturer.

In the raw material trade, however, conditions are very different. This applies especially to the trade in imported materials, which have to be bought up by the wholesaler as the shipments arrive, thus entailing the holding of large stocks. Here, again, conditions vary. In the tea trade, for instance, the wholesaler holds his stocks in a bonded warehouse; he is thus relieved of the necessity of maintaining large premises himself. In the meat trade, of course, the meat must be kept in special "cold storage." But in the milk trade the reverse conditions are found, the storage required being only sufficient to hold a day's supply.

The Wholesaler's Capital.

The amount of capital required by the wholesaler is usually much greater than that required by the retailer. For this there are several reasons, the most important of which are—

(1) A good deal of capital is tied up in the stock which a wholesaler is bound to carry.

(2) Sometimes, the producers whose goods the wholesaler stocks are men of small means, and not infrequently the wholesaler has to advance them sums of money to enable them to carry on their work.

(3) The wholesaler, as a rule, has to give the retailer long credit, while he himself has to pay soon after delivery for the stock he obtains.

The amount of capital he requires will depend partly upon the size of his stock and partly upon the amount of credit granted to retailers on the one hand and producers on the other. We should therefore expect to find marked differences in the amount of trading capital employed as between, say, a wholesale boot merchant, a wholesale draper, a wholesale jeweller, and a wholesale tea merchant, while we should expect a whole-

sale draper to have more capital locked up in credit than a wholesale tobacconist, for in the former trade it is customary to grant more credit than in the latter.

Sources of Supply.

The sources from which the wholesaler obtains his supplies must, of course, depend upon his particular line of business, but, in general, the chief of these are :—

(1) The home grower, for perishable produce.
(2) The home manufacturer, for manufactured goods.
(3) Produce exchanges, for commodities such as hops, corn, coal, metals, and cotton.
(4) Commercial sale rooms, for tea, coffee, sugar, etc.
(5) Import, for foreign produce and manufactures obtained by direct supply.

It is the wholesaler's business to seek the most satisfactory source and to ensure the prompt availability of adequate supplies.

Departmental Control.

The number of departments required by the wholesaler will depend on the type of business. Wholesale tobacconists, fruiterers, tea merchants, and similar concerns will probably require only one selling department, although this may be sectionalised according to the various grades or sources of supply of the commodity. A wholesale draper dealing in all classes of drapery goods will require several departments—one for woollen hosiery, one for woollen bedding and other coverings, another for woollen dresses, yet another for silk goods, and so on. Generally, however, a wholesale textile merchant confines his activities to one class of goods only.

The buyers at the head of the various departments must have considerable experience of the class of goods in which they are dealing : they must buy and sell to the best advantage, and are expected to make their department show a profit which is satisfactory to the management. They are usually well paid, and in most cases receive a percentage on the gross profits of their department, in addition to their salary.

The policy of a buyer must be guided always by two considerations : the success of his own department, and the success of the business as a whole. In practice it is often found that the buyer is inclined to subordinate the interests of the business to those of his own department, and to combat this tendency some concerns have introduced a special system of remuneration whereby the buyer receives, in addition to his percentage on departmental profits, a percentage of the profits of each other department based on the degree of intimacy between his own department and each of the others. This system always

results in a greater degree of co-operation between the various departments, and is, of course, by no means confined to the wholesale trade but can be applied in any business where the same problem of departmental relations arises.

Purchasing.

Each buyer or department head in the concern should be provided with a book of requisition forms for use when he wishes the Purchasing Department to obtain goods for him, in order that he may keep his stock up-to-date. The order should specify clearly and indisputably the quantity ordered, the quality, price and terms of payment, time of delivery and mode of packing and carrying the goods. A special note should be made of all orders to be delivered on a specified date or at stated intervals.

These requisitions are made out in triplicate: one copy is kept by the buyer or head of the department making the requisition, and the other two copies are sent to the Purchasing Department, where one of them is filed for future reference. On the other is entered the date on which the material is ordered and the firm with which the order was placed. This copy is then returned to the buyer or to the department which requisitioned the goods, as a notice to it that the goods have been ordered.

The Purchasing Department then makes out an order on a proper printed and numbered order form, giving all necessary directions as to forwarding. As a rule three copies of the order are made by one operation on the typewriter :—

(*a*) The first goes to the firm from whom the goods are ordered.
(*b*) The second copy goes to the Accounting Department for comparison with the invoice when it arrives.
(*c*) The third copy remains with the Purchasing Department as its record of the order. It should contain a space for entering the date of delivery and the quantity delivered, in case the order is delivered in several instalments. For safety and convenience, the order is pasted or otherwise fixed in an *Orders Outward Book*, or is filed in an *Orders Outward File*.

As a rule, separate order books are kept for different classes of goods, as well as for each separate buyer. This system is to be recommended on the grounds of convenience and efficiency, and it is usual to keep also a separate book for recording orders which are to be *executed some time ahead*, since orders of this kind must be watched carefully to ensure punctual delivery. For this purpose the pages of the book may be "tabbed" to indicate the dates of delivery, and each day the person responsible should glance at the tabs to ascertain what deliveries are due, to send out reminders to those suppliers who are behind

time, and to take more rigorous steps with regard to those orders, if any, which remain unfulfilled despite a second reminder.

Whenever an order is given for the future delivery of goods over £10 in value, the supplier should be required to indicate his acceptance of the order by sending a written and signed "confirmation." Without this the buyer has no remedy against the supplier if he fails to fulfil the order (see Chapter 17).

Buying Commitments.

The main object of providing a special book for orders for future delivery is to facilitate the checking of commitments of this nature. In a large concern one of the most difficult tasks confronting the executive is that of controlling the activities of the staff of buyers. To further this object, the order book for future deliveries may be in a somewhat different form from that used for ordinary orders

The duplicate order that is sent to the supplier is in the usual form but is actually a copy of only the left-hand portion of the form retained in the book. The right-hand half of the latter has no copy but is ruled with spaces to show :—

(*a*) The total value and quantity of the goods ordered.
(*b*) Particulars of each delivery as made for use where goods are to be delivered in instalments, including the date, value, and quantity of each instalment received.
(*c*) The balance (quantity and value) to be delivered.

The form may, of course, be modified to suit the requirements of the particular business. Thus, a space may be provided to indicate the dates on which deliveries are due and any other necessary details.

By using a book of this type it is a comparatively simple task for a buyer to prepare periodical reports for the management, showing the extent of his buying commitments for future delivery. A report of this nature would usually give in tabulated form the following details :—

(*a*) Number of order.
(*b*) Name of supplier.
(*c*) Description of goods.
(*d*) Total value of the order.
(*e*) Value of balance outstanding.
(*f*) Date of next delivery.
(*g*) Date of final delivery.

The total of column (*e*) would, of course, represent the buyer's outstanding commitments.

Budgetary Control.

It is, of course, the duty of every buyer to see that his stocks of goods do not fall too low, and, on the other hand, that he does not hold larger stocks than are necessary to meet the demand. As the buyer is usually a busy person, a good plan is to place an assistant in charge of each section of the department concerned,

with instructions to report periodically to the buyer as to the state of his stock, for the recording of which bin cards should be used. The buyer is in turn responsible to the management, and has to report on the working of his department, giving details of the stocks held, credit granted, and the commitments he has incurred in buying. Sometimes there is a rule that no order exceeding a certain figure may be placed without authority from the principal or managing director or general manager, as the case may be.

This system of keeping a check on stocks and of presenting periodical statements to the management is an application of the "budgetary control" system described in Chapter 16, and its object is to enable those at the head of affairs so to co-ordinate buying and selling as to make the best use of the working capital of the undertaking.

Passing of Invoices.

It has been mentioned that before any inward invoices are passed to the Accounts Department they should be thoroughly checked. To facilitate this process one method is to impress on each invoice as it is received a rubber stamp designed somewhat as follows and embodying a numbering device :—

No.:	Recd. ....
2506.	Checked ....
	Prices ....
Order No. :	Calculations ....
	Order Marked...........
A719.	Buyer ....

Each space is initialled by the person responsible. The first space is initialled by the clerk at the Goods Reception Office, who checks the quantity and description of the goods from his Goods Received Book. The second space is initialled by the official who has inspected the goods as regards quality. The third space is for the invoice-clerk, who checks off the prices on the invoice with those shown in the Order-Book, and enters the number of the Order in the space provided. All calculations are checked by a second invoice-clerk, and either he or his colleague marks off the order with the date to indicate that the invoice has been received and so ensure that a second invoice shall not be passed for the same goods. Finally, the buyer responsible for the order would examine the invoice, and initial it to indicate its regularity

The invoice may now be passed to the Accounts Department, where the necessary entries are made in the books, and a remittance is sent immediately if the order is for cash, or the

invoice is entered from the Purchases Book to the credit of the supplier if credit has been granted.

The invoice is finally filed away in the invoice-file under its distinctive number so that it may be ready for reference at a moment's notice.

Checking Goods Inwards.

To obviate the passing of order slips from the Goods Reception Office to the Purchases Department and back again, and also to ensure that the Goods Received Office actually check up all goods inwards, the following system is sometimes adopted.

No notification of orders is sent to the Goods Reception Office, but this office is supplied with Goods Received Books made up in sets of manifolds and ruled as indicated below :—

Date.	Supplier.	Description.	Quantity.	Receiver's Initials.	Inspector.	Carr. Pd. or Carr. Fwd.	Invoice No.	Invoice Clerk.
1	2	3	4	5	6	7	8	9

A further column may be left for remarks, and the sets (five in each set) are numbered consecutively.

The first five columns are filled in by the actual receiver of the goods, columns 6 and 7 by the inspector, and columns 8 and 9 by the inwards invoice clerk.

The Goods Reception Office makes out a set of these slips, by means of carbon paper, for each consignment received. One copy is retained for reference, and the others are sent to the Accounts, Planning, Purchases and Stores Departments respectively. The Purchasing Department checks the details on the Goods Received Sheet against its copy of the order and also against the invoice, and if no error is found, the Purchasing Department's copy of the Goods Received Sheet is placed, with the original requisition, in the "Fulfilled Orders" file. The invoice is then sent through to the Accounts Department.

If any goods are defective, or any mistakes have been made in delivery, the Purchasing Department's copy is retained in the following-up file, and is tabbed with a date clip indicating a date when a reply can be expected regarding the deficiencies. There it will remain until everything is satisfactory, and the transaction is closed. All papers connected with an order are marked with the order number.

The Sales Machinery.

Besides controlling the purchasing side of his department, each buyer is responsible for disposing of his goods at a profit. He has under his control a staff of indoor salesmen and outdoor

travellers and is given a fairly wide latitude in fixing his prices. But though he is allowed to vary the margin of gross profit on his goods, he is expected to keep within certain limits, and an extreme variation would have to be explained to a principal. It is for this reason that the remuneration of a buyer is based usually on gross profits and not on sales; for if the latter basis were used there would be a tendency for the buyer to inflate his sales by reducing the profit margin. Each buyer is expected to maintain his sales and, if possible, to increase them, and he will have to furnish a satisfactory explanation of any pronounced reduction not attributable to general causes. Where a complete system of budgetary control is in operation the buyer will be required to furnish periodically estimates of his sales for subsequent periods.

The indoor salesman will function usually in well-kept showrooms where retailers may inspect goods just as the customer of a retail shop studies its windows. This is especially necessary in the case of goods which are either too numerous or too bulky to be carried by travellers, and in any case the showroom offers better facilities for display. The retailers make periodical visits to the showrooms and give their orders there and then; often it is found that they choose for their visits the afternoon of early closing day in their own town.

On such periodical visits the retailer is able to get into personal touch with the actual heads of selling departments and may sometimes obtain special price concessions: he is always on the look out, too, for something out of the ordinary run, from the point of view of either newness or cheapness, and in this direction his greatest opportunities arise when the various warehouses have "show-days" for the display of new season's goods or for the clearance of old stock.

Outdoor Selling Methods.

For his outdoor sales, the wholesaler depends mainly on his travellers, each of whom is usually allotted a closely defined district to canvass for sales. To this end he maintains an up-to-date register of all existing customers in his district with whom he must keep in closest touch, and on whom he must call at regular intervals with samples or patterns of goods which are likely to interest them.

The traveller's job is not an easy one. He has not only to seek to increase his sales but also to build up a satisfied clientèle, and in the course of his work he has to face many difficult problems. For example, his main object—indeed, the basis of his remuneration—is the increase in his sales, but the swelling of his sales to a particular customer may not be the best policy in the long run. When a traveller has successfully convinced a customer of the selling value of one of his products, the size of the retailer's order largely depends on the traveller. It is,

of course, to the traveller's *immediate* interest to induce the retailer to place the largest possible order, but it may well be that if he does this and the retailer later finds himself with an unsaleable stock of goods, the traveller will have created a thoroughly dissatisfied customer and adversely affected his *ultimate* interests.

In wholesale salesmanship, as in most other branches of business activity, the traveller nowadays must sell not merely goods but also "service." The retailer expects the traveller to advise him on all kinds of matters: the best methods of display; the likely demand for the product; the possibility of changes in fashion or design; the selling points of the product, and, in general, the amount of stock which, in view of all the circumstances, it would be wise for him to carry.

Besides keeping in touch with existing or "active" customers, the traveller has the more difficult task of canvassing "dead" clients, *i.e.*, those who have ceased to give their custom to his firm. His first object in making this canvass must be to discover the cause of the retailer's defection, and, having found this out, it rests with him to apply the remedy.

If the retailer claims that the traveller's goods are unsaleable, he must be given facts to prove that large sales are being made by other retailers. Very probably the failure can be shown to be due to the retailer's ignorance of the selling points of the particular type of goods, in which case the traveller must make it his business to supply such information and advice as is necessary to remove this disadvantage.

Complaints regarding the quality and price of goods supply the reason why many customers find their way on to the "dead" list. These, however, are technical matters which cannot be treated satisfactorily here, although it may be observed that quite a large proportion of defections are found to be due to causes which are quite easily removable. Retailers have been known to take their custom away from a wholesaler because of discourteous or tactless treatment received by them at the hands of his travellers or his telephone operator, or of the Accounts Department. These instances might easily be multiplied, but they serve to illustrate the fact that "dead" customers may very often be brought to life by attention to quite trivial matters, and by as much attention as is reasonably possible to the slogan that "the customer is always right."

The third task of the traveller is to canvass new customers. In the most efficient concerns travellers are instructed to apportion their time carefully between the three fields: thus, a traveller may give three days of each week to active customers, one to "dead" clients and one and a half to new customers. Where the traveller's field of operations is wide he will, of course, have to divide each day's work in this fashion, for there would obviously be a waste of time if he had to retrace his steps in

order to keep to this programme. The essential point is that he should give due attention to all three aspects of his work and not favour one to the detriment of another.

Travellers' Remuneration.

One of the most difficult problems to be faced by the wholesaler is that of fixing the remuneration of his travelling salesmen. As a rule, a traveller's pay consists of a basic salary plus a certain commission on his sales, the object being to encourage him to increase sales as much as possible.

At first sight it would appear that the best policy would be to omit the fixed salary and pay only a commission on sales, but such a system would have many disadvantages. In times of slack trade the travellers would earn less than a living wage whilst in boom periods they would reap huge rewards and would tend to slack. Those travellers engaged in working up *new* districts would have just cause to complain and, in any case, the percentage would need to be varied from district to district, since some areas are more easily worked than others. There would also be a tendency for travellers to concentrate on old customers, so as to make sure of maintaining a reasonable sales figure, rather than to spend part of their time canvassing prospects. Finally, travellers would be encouraged to open accounts regardless of the standing of the retailers, and the figure of bad debts would increase disproportionately. Even if a basic salary is paid plus a small percentage on sales the above disadvantages are present in a minor degree.

On the other hand, there is the danger that if the traveller is paid no commission but works entirely on a fixed salary and earns no extra by increasing his sales, he will be tempted to slack. Nevertheless, it is only by paying the greater part of the traveller's remuneration in the form of a fixed salary that the sales manager can retain full control over the selling methods of his salesmen. In the United States there is a growing tendency to abolish the commission system and to establish in its place a system of fixed salaries and "quotas," *i.e.*, each traveller's district is made the object of a detailed research, and an estimate is made of the volume of sales which should be obtainable therefrom. Provided they achieve their sales quota, the salesmen are given a free hand, except, of course, that they must follow out certain broad lines of policy. But if a traveller falls below his quota, he must accept detailed instructions from the sales manager, and the general objection of salesmen to having their mode of attack and methods of business entirely regulated is a great incentive to increase sales.

Supervising the Sales Force.

The supervision of travellers may be in the hands either of the buyer or of the sales manager. Control is maintained

by requiring each traveller to forward regular returns to the office. Usually, travellers working in the immediate vicinity will make daily reports of sales and complaints, etc., in person, and will themselves bring in any orders which they have booked. On the other hand, travellers working farther afield will send in their orders by post and will make their returns periodically. Where it is at all possible, however, it is advisable that any such traveller should make periodic visits to the Head Office so that he may be able to exchange views and information with the buyer or sales manager.

The returns made by each traveller usually include (1) orders booked; (2) enquiries, with remarks as to the value of "prospects"; (3) expenses schedules; (4) complaints; (5) results of canvassing.

The supervision must be directed not merely towards the total value of each traveller's sales but also towards the value of his sales to customers of importance. This is necessary in order to detect any serious falling-off from a valued customer.

Besides supervising the traveller's results, the official responsible for his control must also keep him well supplied with sales material. Up-to-date samples and the latest prices must be put in his hands, whilst obsolete samples must be withdrawn without delay. Printed propaganda, where that is used, must be circulated to the travellers concerned, whilst any modification of policy must at once be communicated to them.

Wholesale Advertising.

In the wholesale trade, as in any other branch of business, increased sales are usually the aim of the trader. How and when he shall push his goods must depend on his own judgment, but certain methods are common to all. Wholesale advertising is directed mainly to "the trade." No doubt the ideal way for a wholesaler to dispose of his goods is to send round travelling salesmen to those who are likely to be interested, for these salesmen are able to emphasise the special selling points of the articles dealt in, and to meet there and then any objections which may be raised. But the wholesaler's activities are usually so extensive that this method would be inadequate to cover the whole of his connection, and for much of his business he relies upon advertisements in his trade journals and on direct mail advertising by the issue of circulars, catalogues and price-lists.

The latter important method of sales approach is nowadays used to an increasing extent, and in some trades, especially those which deal in more or less standardised goods, this is probably the most productive sales force at the disposal of the wholesaler. In all concerns of any size there is a separate Publicity Department employed in making up such lists and catalogues. The department gets its information from the

buyers of the various departments and produces not only a complete catalogue for the whole of the firm's goods, but also catalogues and price-lists of special classes of goods and modified lists for seasonal sales campaigns, *e.g.*, the spring sales catalogues of gardening tools and equipment issued by leading wholesale hardware warehouses.

Finally, there is the important sales approach of press publicity. In the wholesale trade press advertising is usually confined to the various trade journals current in the retail trades. The wholesaler does not, as such, advertise to the consumer, but where he does so establish a direct link with the consumer he is acting usually in the capacity of a mail order retailer.

Mr. J. Murray Allison, Director of the Field Press, writing in the *Caxton Business Encyclopædia*, says: "The foundation of the trade campaign [in Advertising] is the selling campaign. The article has certain advantages in itself, and the advertiser has a certain idea which will promote the sale of that article. The merits of that article should be proved by trade advertising to the trade, and the manufacturer or advertiser must announce his methods by which he proposes to push that article. In other words, he should, when asking retailers to stock his goods, tell them of the merits of the goods, and, more important still, the methods by which he proposes to shift them."

"Branded" Goods.

Wholesale advertising to the general public requires that the wholesaler shall assign to his goods some mark or description—"brand" as it is called—that will enable the public readily to identify them as the goods which they have seen advertised. It would obviously be useless for a wholesale merchant dealing in shirts to advertise promiscuously the advantages of wearing those garments. He would merely be spending his money to the advantage of the whole body of shirt-dealers. What he does is to register a trade name for the shirts in which he deals and then to advertise under that name or "brand." Probably he will buy his shirts from several manufacturers but he will sell them all under one brand.

There are many advantages attaching to the registration and use of trade marks and names, the more important of which are as follows:—

(1) A special demand for the branded goods can be created by means of an intensive advertising campaign.

(2) A campaign can be entered upon with the knowledge that there will be no competition in that particular class or line of goods, so that the advertiser may reap the whole fruits of his efforts.

(3) The price can be fixed by the manufacturer, so that

consumers may know that they are not being charged an exorbitant price by the retailer.

(4) In order to maintain the good reputation attaching to the branded goods, the manufacturer is compelled to maintain their quality.

(5) Once the brand has been brought to public notice, the cost of selling becomes less, for retailers have sufficient confidence in the goods to order without inspection of samples or the persuasion of travellers and salesmen.

(6) In many cases it is possible for the manufacturer and the retailer to dispense with the service of the wholesaler. Both gain by saving the middleman's charges, whilst the manufacturer also gains by reduced distributive expenses.

The wholesaler is not the only one who benefits from this form of publicity. The retailer, too, shares in the benefits. He derives the advantages of a national publicity campaign which brings more customers to his shop. Further, he is assured of a more or less stabilised demand for the branded goods which have been brought to the public notice. The system aids, too, in the standardisation of quality and saves the retailer much trouble in choosing and buying his stock.

The main disadvantage is that the retailer is usually bound by agreement to sell at the price fixed by the manufacturer or wholesaler, and must not sell at a lower price even to oblige an influential customer. In some cases, too, the manufacturer makes a stipulation to the effect that the retailer must not sell other goods of a similar type, thus unduly restricting the stock of the retailer and the selection of his customers (see also page 409).

Execution of Orders.

Orders for goods may be received either through the post, through travellers, or personally by visits of customers to the warehouse. The orders are received first by the Administrative Section, by whom copies are made, and the originals are filed in a special file kept for orders received but not executed. This system of filing can be subdivided for orders to be executed *immediately*, orders to be executed *in the future* (in date order), and orders to be executed *by instalments* (also in date order). In the latter case, as each instalment is despatched, the order will be marked with the quantity sent and the balance still to be executed, and will then be transferred in the file to the date when the next instalment is due for despatch.

When a customer attends personally to give orders, a special form is employed on which details of the order are made and initialled by the buyer, who also makes a note of the order in a memorandum book. If the customer's order affects several departments, details are entered in the memorandum book of

each buyer, and the order form is then sent to the administrative staff, by whom copies of the component parts of the order are made for the use of the various departments, and the special order form is placed in the "Orders-to-be-Executed" file.

The duplicate orders made out by the administrative staff are sent to the departments concerned, accompanied by a copy showing collectively the details of the whole order. The various departments then proceed to collect the goods required, taking care that the goods are of the correct quantity, quality and price. Details of the order are then entered in the buyer's "Orders Received and Executed Book," in each case showing the customer's name and address, the quantity and price of the goods, and the date when executed. Finally, the duplicate order is dated and initialled by the buyer or his assistant.

Despatch Department.

The goods are next taken with a packing slip to the packing section of the Despatch Department, when they are again checked, and, if found to be correct, the slip is initialled and dated by the packer. In those cases where goods from several departments are contained in one order, the packer will assemble the goods in order that they may be despatched to the customer as one consignment.

All outgoing goods must be neatly and strongly packed and securely fastened. This is important, as carriers of goods are not liable for damage caused in transit if it is due to faulty packing. When goods are to be consigned abroad, there are special points to be considered. In some cases packing in bales is an advantage, but fragile goods should always be packed in cases to protect them from damage, as bales are pressed to save space and freight. For countries where transport arrangements are poor, small cases are desirable, but if a levy is made per case imported, large cases should be used. Many goods sent to Australia are packed in tanks, which when emptied are saleable for water storage. Each country must, of course, be considered on its merits, and careful attention must always be paid to the customs and import regulations.

In the home trade it is usual for each firm to deal with its own packing and forwarding, since the firm itself should be in the best position to judge the requirements best suited to its own line of goods and to its customers. In the export trade, however, it is common to leave this task to a firm specialising in a particular foreign market, in which case both the packing and despatch are often carried out by the one concern, which also attends to shipping formalities. In the home trade this delegation takes place as a rule only in those cases where the packing requires expensive appliances and the selling concern has not sufficient business to justify the purchase of the necessary equipment.

As each article is packed, the packer ticks it off on the packing slip, and when all the goods are packed, he forwards the slip to the Invoice Section of the Despatch Department and sends the packed goods on to the actual Despatch Section.

The invoice clerks make out invoices in duplicate or triplicate, preferably the latter, for one copy can then be sent to the customer by post, a second copy to the Administrative Section, and the third copy, detailing merely the quantity of goods, can be sent with the consignment to the customer in the form of a delivery note. The duplicate order is attached to the original order, which may then be transferred from the "Orders-to-be-Executed" file to the "Orders Executed" file.

The despatch clerk enters the particulars of each consignment in a book kept for that purpose, taking special care to see that both the date of despatch and the method of carriage are clearly stated. Any query that may later arise as to non-delivery may then be referred first to the Despatch Department officials, who can then turn up the item in their book. When the goods have actually been sent, the despatch clerk initials the duplicate order, inserts the date and the method by which the goods have been despatched, and sends the order on to the Administrative Section.

The Accounts Department will in due course debit the customer's account with the amount of the invoice, while the corresponding credit will be included in the total of the day's Credit Sales.

Goods Returned.

Goods returned by customers can be refused provided they are of the type, quantity, and quality ordered, and were delivered in good condition, for no trader is legally bound to accept such returns. Many wholesale warehouses, however, make it a practice to accept goods returned, provided they are in good condition and the customer has a logical reason for refusing to accept them.

In such cases, a section of the warehouse should be allotted to the receipt of goods returned, and each case should be treated on its merits. Where the goods are returned carriage forward they should in every case be refused. In other cases, delivery should be accepted and the goods examined to see that they are in good condition and that they are the identical goods which were despatched from the warehouse. The amount claimed by the customer on account of the return should be checked with the copy of the invoice sent to him and with the amount debited to his account. If no invoice or entry relating to the goods can be traced, enquiries should be made immediately of the buyer of the department concerned (who should have particulars entered in his Orders Received and Executed Book) and of the Administrative Section (where an entry should be

found in the Sales Books). If all is in order and the goods are fit for re-sale, they must be returned to the buying department concerned and full particulars sent to the administrative staff, who will pass on instructions to the Accounts Department. The Buying Department will pass the returns into stock, making a note in the Orders Received and Executed Book and on the Stock Cards. The Accounts Department will make out a Credit Note in duplicate, the original being sent to the customer, and the duplicate being used for entering particulars in the Returns Inwards Book, whence a transfer will be made crediting the customer's account in due course.

Where goods are returned because they are not in accordance with the customer's order, efforts should be made to trace the cause of the mistake, and the customer should be sent a written apology for the error and the delay. The goods may then be taken into stock and, provided the customer has not cancelled the order, other goods conforming with his instructions should be assembled, under the same procedure as the original order, and despatched by return. It is preferable to give the customer a credit note, and to charge the new goods out in the ordinary way, rather than to alter the particulars in the various forms and books of account. A similar procedure applies in the case of damaged goods, except that the goods are not, of course, returned to the ordinary stock.

QUESTIONS BEARING ON CHAPTER 28

1. It is asserted that the wholesale trader renders services to manufacturers on the one hand and to retailers on the other. What are these services and in what way do they result in benefit to the ordinary member of the public purchasing goods? (*R.S.A., Stage I.*)

2. What services are rendered by wholesalers to retailers? Are the former always necessary to the latter? Illustrate your answer by examples. (*R.S.A., Stage I.*)

3. What services does a retailer expect to receive from the wholesalers with whom he deals? (*R.S.A., Stage I.*)

4. What are the services usually rendered by the wholesaler to the retailer? In what circumstances would manufacturers find it better to deal direct with the retailer? (*London Chamber of Commerce, Certif.*)

5. Is it (*a*) possible, (*b*) desirable to combine a wholesale and a retail business under the same proprietorship? Argue the points involved. (*R.S.A., Stage III.*)

6. Discuss what services are rendered by the wholesale drapery warehouse to the manufacturer and to the retailer. (*R.S.A., Stage II.*)

7. Discuss the advantages and disadvantages of "branded" goods in retail trade. Why do wholesalers often sell goods under their own privat brands when it is evident that they are not manufacturers? (*R.S.A., Stage II.*)

8. Explain clearly what you understand by (*a*) the fixed capital; (*b*) the working capital; (*c*) the liquid capital; (*d*) the circulating capital of a warehousing concern. (*R.S.A., Stage II.*)

9. "The fourfold division of every business, wholesale or retail—buying, selling, financing and accounting."

Examine the appropriateness or the reverse of this division and outline a scheme whereby co-ordination could be secured between the four in the case of a Wholesale (Warehouse) business. (*R.S.A., Stage II.*)

10. Enumerate the types of wholesale middlemen that a retailer may expect to meet when he seeks to obtain a stock of foreign manufactured goods. How are these middlemen remunerated? (*R.S.A., Stage III.*)

11. Take as examples five articles usually found in a grocer's shop, and indicate how they have reached the shop from the places where they were produced. (*R.S.A., Stage I.*)

12. What does a wholesale warehouseman mean by "budgetary control"? Give an outline of a scheme of such control suitable for a warehouse with three principal departments. (*R.S.A., Stage III.*)

13. Describe the organisation of a wholesale warehouse. (*R.S.A., Stage I.*)

14. Outline the main features in the organisation of a wholesale warehouse, paying particular attention to the planning of its order department. (*R.S.A., Stage I.*)

15. What differences would you expect to find in the general organisation of wholesale businesses engaged in handling raw materials and manufactured goods respectively? (*R.S.A., Stage I.*)

16. What are the principal duties of a buyer in a wholesale drapery house? What considerations should guide him in the discharge of these duties? (*R.S.A., Stage I.*)

17. Draft a workable routine for (*a*) the entering out in a wholesale warehouse of goods to be despatched to customers, (*b*) the forwarding of invoices for the goods, (*c*) the charging up to customers' accounts of the correct amounts, (*d*) the checking of procedure so as to correct mistakes made. (*R.S.A., Stage II.*)

18. If you were the manager of a wholesale warehouse, what statistical data would you periodically require to enable you to maintain turnover and net profit in each of your departments at prearranged figures? (*R.S.A., Stage II.*)

19. Into what main Departments may a Wholesale Merchant's business be organised, and what functions be performed by each of these departments? (*London Chamber of Commerce, Higher Certif.*)

20. Indicate some of the problems of unification and control that have to be solved by the manager of a wholesale warehouse, and sketch their solution in some one special case. (*R.S.A., Stage III.*)

21. Explain in what form copies of orders given out in a wholesale warehouse to manufacturers for supplies of goods ought to be kept and tabulated. Could these records be utilised to indicate also the receipt of the goods into the warehouse? (*R.S.A., Stage II.*)

22. As the accounts for goods bought are received they are forwarded to the Cashier's Department to be checked. Describe a careful method of checking these accounts. (*London Chamber of Commerce, Certif.*)

23. Describe in detail a method you would adopt to effect the speedy despatch of orders. (*London Chamber of Commerce, Certif.*)

CHAPTER 29

THE RETAIL TRADE

THE retailer is the last of the many links in the economic chain whereby our wants are catered for smoothly and efficiently. It is his business to study the requirements of consumers and to buy accordingly from the wholesaler. The number and size of the retail businesses which are to be found in any place vary according to the size and wealth of the potential market. Consequently, differences in the concentration of population in various localities cause retail businesses to vary greatly in size and type, ranging from the hawker and coster to the large multiple shops and departmental stores which are becoming such a marked feature of modern communities.

Types of Retail Business.

The most important types of retail businesses are pedlars, stall-holders, retail shopkeepers, multiple shops, departmental stores, multiple departmental stores, mail-order concerns and co-operative societies. The organisation of the retail trade is naturally not so advanced in villages as in the larger towns. Indeed, it is customary in villages for the inhabitants to make periodic visits to adjacent towns for the purpose of buying goods which the village retailer does not stock because his potential market is too small. In many cases, too, villagers make purchases from the modern hawker, who pays periodic visits with a variety of stock which he carries in a motor-van. Such "petrol" hawkers have largely driven the picturesque itinerant hawker off the road.

Economic Justification of the Retailer.

Whatever the size of his business or by whatever name he may be known, the retailer's position in the chain of distribution is the same—he acts as a link between the wholesaler and the consumer.

In the great majority of cases the retailer relieves the wholesaler of a great deal of detail work that the latter would have immense difficulty in performing. Imagine, for instance, the absurd position which would arise if, every time a customer desired to buy a box of matches or a packet of pins, he had to apply therefor to a wholesaler. The difficulty might be overcome, admittedly, if the wholesalers opened small local branches

in every town and village—a process which, in fact, is rapidly extending with the great spread of multiple shop concerns in recent years. But in the past it would have been difficult to find a single wholesaler with sufficient capital to expand his business to this extent, consequently the work has had to be performed by small local merchants or retailers.

It may nevertheless be asked why, now that large capital resources can be secured by individual concerns, the retailer has not been more rapidly eliminated by the new multiple shops. One reason for this is, that the multitude of retailers already in existence will not willingly give up their business whilst they can make reasonable profits. Further, new retail businesses are being set up every day by people who have the necessary capital and enterprise; for it is still possible to make profits by retailing, though the possibility becomes daily more slender as prices are cut lower and lower by the more powerful traders.

That profits can be made in this line of business is in itself some measure of proof that there is a demand for the retailer's services. What is it, then, that the public is willing to pay for? The answer is, that the retailer sells goods in a manner which is more convenient to the consumer than would be the case if the same goods were marketed direct by the wholesaler. It must be understood, of course, that the wholesaler here referred to is the large buyer and seller; if he extends his business to opening small local stores he is taking on retailers' functions, and it makes little difference to the consumer whether he pays for the upkeep of a store of this nature—for its rent, rates, lighting, heating and for the wages of the shop-assistants—or whether he pays practically the same charges to an independent retailer.

The point is that the local store, whether it belongs to an independent trader or is a branch of a wholesale business, has the same functions to perform (and almost the same costs to cover). These functions are—

(1) To sell goods in small quantities;
(2) To hold stocks of goods at convenient local centres;
(3) To display the goods—in windows or on barrows;
(4) To learn the tastes or idiosyncrasies of the consumer and endeavour to satisfy them;
(5) To meet daily demands for fresh food-stuffs;
(6) To procure goods to suit individual requirements;
(7) To supply the *local* needs of the district and the special needs of different *classes*;
(8) Sometimes to grant credit to consumers.

These then are the functions which the retailer has to perform, but naturally these functions vary considerably, and it is this variation which accounts for the existence of different types of retailers having markedly different problems to face.

The Art of Buying.

Although a retail trader depends for his success on the number of customers he can attract and the quantity of goods he can sell at a profit, the basis of a sound retail business is good buying. Unless the retailer has a good knowledge of the sources of supply and can forecast the demands of customers as regards quantity, quality and price, he cannot expect to build up a successful business. He must also be able to forecast changes in fashion and taste. In retail business, as in other business, there is a certain amount of risk arising from the necessity of holding stocks. The retail draper who stocks, say, dresses which are fashionable at the moment must buy the dresses in quantity, but can sell only one dress at a time. Consequently, if the demand for that particular article fails to come up to his expectations—by reason of an unexpected change in fashion—he may have to sell at a loss.

Vagaries in the weather also add to the retailer's risk. A prolongation of summer may leave the retail draper short of a stock of summer goods which are still in demand, whilst at the same time he has a large new stock of winter goods lying idle.

A retail dealer must cater for the tastes of his customers, and, according to the situation of his premises, he must buy and stock goods which are suitable to the class of customers who form his market. A boot dealer in a manufacturing suburb will carry a large stock of heavy boots for the factory hands, and his stock of lighter goods will be lower, whereas a similar dealer in a residential suburb or in the West End of London will stock mainly the better and lighter types of footwear. Moreover, locality and the type of customer influence the price which the retailer can command. A shop situated in a high-class shopping centre can charge higher prices than a shop located in a small back street.

The successful retailer is usually he who aims at stocking commodities of good quality, for such a policy is in the long run the most profitable. It is true that in certain districts cheap goods of poor quality sell more readily than goods of better quality and slightly higher price. But very often retailers who sell such goods eventually lose custom when the buyers discover the defects in their purchases. The aim should therefore be to stock goods of sufficiently good quality to satisfy the average customer and to charge reasonable prices therefor.

Salesmanship.

Needless to say, the success of a retail business cannot be ensured merely by scientific buying. Efficient methods of selling, or efficient salesmanship, are just as necessary.

There are two objects of salesmanship: the first is to attract prospective purchasers, and the second is to induce them to buy.

The retailer must interest people in his goods before he can strike a bargain, and it may truly be said that publicity is one of the most important elements in retail business progress. The object of advertising is to bring customers to the shop, and the question arises as to the best way in which it can be done.

In the small retail shops the chief form of advertising is window display. Nearly all tradesmen nowadays recognise window display to be a powerful selling force, but the older conception of window dressing, which consisted in crowding as many things into the window as possible, has now been completely revolutionised.

"In the newer window dressing," said Mr. George Edgar, late Editor of *Modern Business*, "the three cardinal principles are: (1) To show the seasonable thing. (2) To show it as simply as possible. (3) To show it so that the eye can determine every detail put into the window. In such window dressing, instead of crowding the window, the trader aims at a display which represents the prevailing note of the season."

A clean shop with an attractive window display is a valuable asset, but the window display can be overdone. For example, it is largely a waste of time for the village shopkeeper to spend time in elaborately dressing his window, for his customers will probably continue to patronise him even if he neglects this matter. But in a main shopping thoroughfare where competition is keen, an attractive window display may be the deciding factor in the attraction of customers.

In those cases where outside advertising is resorted to, window displays ought to be in tune with advertising. People like to see the advertised article in the window and to inspect it for themselves, so that they may judge values. Moreover, the shop assistants ought to know all about the advertised line, and should be able to explain its merits to the prospective customer—in other words, there ought to be complete unity between the Advertising and the Sales Departments.

When once the customer has been induced to enter the shop a good salesman will rarely permit him to leave empty-handed. He may induce a sale by open persuasion, or by suggestion, or even by flattery, but if the customer has made up his mind exactly what he requires before entering the shop, the good salesman will satisfy his needs without delay and without trying to divert his taste. Above all he should not pester the customer to buy goods he does not want. Other essential qualifications of a salesman are courtesy, good manners and neat appearance.

Establishment of a Retail Business.

On the establishment of a retail business one of the first matters for decision concerns the amount of capital which will be needed. This will naturally depend upon the nature and extent

of the proposed business. If the shop is to be conducted on a cash basis, *i.e.*, if all purchases are to be paid for in cash on delivery, less capital will be needed than would be required to finance a similar business on credit lines. In any case the retailer must find sufficient cash to carry adequate stocks of goods, although he may be assisted in this direction if he is able to obtain trade credit from his wholesale suppliers. In some trades the premises need to be fitted up with expensive appliances; in that case it is advisable for the trader to buy his own premises or, at least, to obtain a long lease: in the former case his capital must be adequate to purchase the premises, in the latter he must be able to sink part of his capital in paying for the value of the lease. The retailer's capital may thus be said to consist of his stock, premises (if owned by him), furniture and fittings, cash in his till and at the bank—which must be sufficient to meet current expenses—and credit allowed to him by suppliers. Many retail firms are conducted on borrowed capital, but since this means that the trader, in fixing his prices, has to make provision for payment of interest, it cannot be considered a thoroughly sound mode of finance.

Locality and Position.

The questions of locality and position are vital. The locality must be suited to the nature of the proposed business; thus in some districts there is no demand for a particular type of shop—a book-shop, for example, in some working-class districts; whereas in other districts this type of shop is likely to be conspicuously successful.

Then another question arises: Should the business be started in a district where there is little competition, or in one where competition is likely to be keen? If the trader is alert, capable and enterprising, there is no reason why he should not open where the competition is keen. In fact, there are certain districts in London where many shops doing the same sort of business are to be found side by side, and these districts become known to the public as recognised shopping centres for goods of a particular kind—Holborn Viaduct, for instance, for bicycles; Savile Row for men's suits; and Great Portland Street for motor-cars.

Even the side of the street is not without its importance, since, for some reason which no one can explain, there are streets in which the shops on one side are successful, while those on the other side are unsuccessful.

ORGANISATION AND METHODS

The best advice that can be given to a retailer is summed up in one word—specialise. The successful retailer must concen-

trate upon one particular line so as to become identified by the public with a recognised speciality. "This does not mean," says Mr. Elliot Stone to the retailer, "that this leading line is actually the one of which most is sold, but it does mean that there is a definite reason why a number of persons come to the shop. The more you become identified with that special feature the greater will be the volume of business transacted, and the more opportunities you will have of selling to your customers the other goods you stock. . . . A good reputation for one thing is a useful and easy introduction to the sale of many things."

Two other essentials to a successful business may be mentioned: they are absolute integrity and prompt, painstaking attendance to the customer's wishes. To be successful the trader must build up for himself a reputation for strict probity. The slightest suspicion that he is guilty of sharp practice will divert from him the best of his trade. Moreover, he must aim always at *serving* the customer, to the best of his ability, attending to his wishes and showing himself ready at all times to give information and assistance.

Records of Goods Purchased.

It is essential in retail as in other businesses that a careful record be kept of goods ordered and goods received. A copy of each order should be kept and filed for future reference, or. preferably, all orders should be entered in an Order Book. When the goods are received, the relative entry in the Order Book should be marked off, and particulars of the goods should be entered in a "Goods Received Book." Each entry should be numbered, and should show the date of receipt, the name of the carrier, from whom received, the nature of the goods, the type of packing, the number of packages, weight, value in sterling, carriage payable and whether any of the packages or goods were damaged. The goods must be carefully examined and compared with the particulars on the invoice and on the duplicate order (or in the Order Book), and if any defect is apparent the matter should be taken up with the supplier.

After the goods have been checked, the checker will initial the invoice and insert the date and then pass it to the buyer, who should initial it to authorise payment for the goods. The invoice will next be passed back to the office, where it will be entered in the Purchases Day Book, and then forwarded to the cashier. He will credit the supplier's account with the amount owing, and will enter the amount in a "Commitments Diary" under the date when payment becomes due. On that date payment will be made (after deduction of Cash Discount).

Payment for Goods.

The bulk of retail business with the public is conducted on cash terms, and payment is made over the counter. Where this

is the case a check on the honesty of salesmen is imposed by the use of cash-registers—those familiar but ingenious machines which record cash received and, in certain models, furnish a receipt.

In other businesses goods are sold on credit. Whether the business is conducted on a cash or on a credit basis is a matter which will largely depend upon local conditions and upon the nature of the business. A small tradesman usually finds it necessary to grant a certain amount of credit, and should therefore make a careful study of the paying capacity of each customer, and grant credit accordingly. Likewise, large retail concerns such as Selfridge's and Harrods, which grant credit to the extent of thousands of pounds each week, must protect their commitments in this direction by careful enquiry as to the means and standing of their many credit customers.

Instalment Purchase or Consumer Credit.

Many retailers now sell goods to customers under an agreement whereby the customer takes immediate possession of the goods and pays for them over a period by periodical payments or instalments. This form of selling is not by any means confined to the retail trade, for it has been in vogue in other businesses for a number of years, but it will be convenient to consider it in connection with the retail trade since it is here that it is most commonly met in everyday life. Broadly speaking, there are two forms of payment by instalments, *viz.*, *hire purchase* and *deferred payments*.

Hire Purchase.—Under a hire purchase agreement the customer takes possession of the goods at once and agrees to pay a certain sum at stated intervals. But although the goods actually come into his possession, the ownership still vests in the seller, who, if the customer fails to pay any instalment, can retake possession of the whole of the goods, as well as keep by way of forfeit the instalments already paid by the customer. In other words, until all the instalments have been paid, the goods remain the property *of the seller*, and the buyer does not obtain complete ownership until he has fulfilled his contract by paying the final instalment.

Deferred Payments.—The hire purchase system has been modified by enterprising retailers who, in order to offer further inducements to purchasers, have evolved the system of "deferred payments." Under this system the goods become the actual property *of the buyer* on payment of the first deposit, but in many cases a special agreement is arranged whereby, if the buyer fails to pay his instalments, the seller has the right to take possession of goods to the value of the amount unpaid, plus a reasonable allowance for expenses, whilst the buyer

retains goods to the value of the amount paid, less the expenses incurred by the seller.

Other inducements offered include a so-called "Free Fire Insurance," under which the seller agrees to forgo further payments if the goods are destroyed by fire. Life assurance is also included in certain cases.

When business is conducted on the instalment plan, a careful record must be kept of the goods sold, of the dates when payments are due, and of the actual payments made. A receipt is sent for each instalment, and a final receipt when all instalments have been paid. For this purpose a card index system is useful, each customer being allotted a card on which all particulars are entered and which is divided along the top edge into spaces representing the months of the year. Each card is "tabbed" with a movable metal tab according to the date on which payment is due, and when a payment is received the date and amount are entered on the card and the date tab is altered. When a payment is not received within a few days of the due date, the customer is reminded of the fact and requested to forward a remittance. If this brings no reply, a more urgent demand must be sent requesting payment by return, and if this fails, steps must be taken to regain possession of the goods.

The Hire Purchase Act, 1938.

The *Hire Purchase Act*, 1938, applies only to England and Wales and covers agreements for hire-purchase or credit-sale where the amount involved does not exceed £50 in the case of a motor vehicle, £500 for livestock, or £100 in any other case.

An important provision of the Act is that the seller must state the price of the goods for cash payment. The purchaser can then calculate how much he is paying for credit facilities.

If the purchaser wishes to terminate the contract at any time he may do so by returning the goods and paying half the contract purchase price. Where the hirer has paid at least one-third of the purchase price and then defaults, the seller cannot obtain possession of the goods without first applying for the sanction of the Court to do so. The Court, after considering the means of the hirer, will decide whether the seller is to regain possession, or whether the hirer shall pay the balance owing in a manner compatible with his means.

Advantages and Disadvantages of Instalment Buying.

The method of buying by instalments has its advantages, and is economically sound provided it is not abused. To furnish a home, or even to buy a house, under such a system is distinctly advantageous and tends towards thrift. But the buyer has to pay for the convenience of early possession, and the seller requires a consideration for granting the convenience

and for taking the extra risk. Consequently the seller charges a higher price for the goods, either by marking all prices higher and allowing a discount for cash, or by adding a percentage to the cash prices. In the latter case, the percentage usually varies according to the period over which the instalment payments are spread—the longer the period the greater the percentage.

The great advantage of the system is that it encourages trade. People with small incomes find it almost impossible to pay cash down for the purchase of, say, an expensive gramophone or wireless set. And if they set themselves to save up for that purpose, the period of waiting would be so long in most cases that they would probably fritter away their money in the meantime. By purchasing on the instalment plan, the buyer is forced to save the money, and the necessity of paying promptly imposes an additional incentive to save.

The disadvantage of the system, however, is that it frequently induces a person to mortgage his future income to an unhealthy extent. Moderation should be the keynote in instalment buying.

From some quarters the system has been criticised on the grounds that it amounts to anticipating future trade, and that depression, when it comes, is accentuated by the existence of a burden of hire-purchase contracts contracted in good times and relating to goods which may already be worn out.

It is probable, however, that the dangers of the system have been over-emphasised. The proportion of bad debts incurred in hire purchase finance proves to be less than the proportion suffered by bankers. Moreover, it is realised that mass production needs mass consumption, and that one of the surest ways of attaining this is by an extension of consumers' credit. It has been truly said that it is better business to lend money to a man to purchase goods that have been produced for sale than to lend money for the erection of factories that will turn out goods for which there is a doubtful market, and which may prove difficult—even impossible—to sell profitably.

Whatever the merits or defects of the system of hire-purchase, it has certainly come to stay. House-purchase through a building society is really hire-purchase, and no one would seriously condemn this practice. The real test seems to be the nature of the article to which the system is applied. Where an article is of lasting quality and utility, the system is probably beneficial. But goods which are of temporary use, or which are consumed before the payments are completed, are not suitable for hire-purchase.

The system is of particular benefit in the case of *capital goods* (*e.g.*, machinery), the acquisition of which will enable the producer to improve his methods of production earlier than would otherwise be the case; articles of this kind almost earn their cost before they are paid for.

So widespread has the system become that there has sprung up a new type of finance-house, which specialises in the provision of finance to firms selling goods on hire-purchase terms. One of the best known of these, the United Dominions Trust Ltd., specialises in the financing of businesses manufacturing capital goods, and the importance of its work may be judged from the fact that it has received considerable financial support from the Bank of England.

Profits and Selling Price.

The profit gained by a retailer must be sufficient to remunerate him for his capital and labour, and his selling prices must therefore be fixed at a figure which will bring in a reasonable rate of profit, regard being paid at the same time to the prices charged by competitors.

Selling prices are fixed on a different basis in each trade. Where the turnover is rapid, as in the case of perishable goods, the selling price will be lower, in comparison with cost price, than in a business such as a jeweller's or furnisher's, where the turnover is slow. The trader must also consider from time to time whether he would benefit by lowering his selling price a little, thereby making a smaller profit on each article, but increasing total profits by reason of the larger sales induced by the lower price. In other cases, it may be more profitable to fix the selling price high and be content with a smaller turnover, but this can succeed only where no suitable substitute is being marketed at a lower price.

Wholesale and Retail Profits.

A wholesaler usually calculates his gross profit as a percentage of sales or turnover. This profit must be sufficient, after the deduction of all administrative expenses, to provide him with a normal rate of interest on the capital employed and also to remunerate him for his services and organising abilities. These considerations are applicable also to the retailer, but as a general rule the retailer allows for a higher percentage of gross profit, the reason being that he has not such a rapid turnover as the wholesaler, whilst his overhead expenses are relatively higher. In contradistinction to retailers, wholesalers work on the basis of small profits and quick returns, though this principle nowadays is coming into force in the retail trade as well. Apart from this consideration, however, there are a number of reasons which force the retailer to take a higher rate of gross profit :—

1. The retailer's customers frequently take a long time to choose the commodities they require; this is particularly the case in drapery and similar businesses. The retailer, however, usually knows exactly what he

wants and takes little time in ordering goods from the wholesaler. Thus, the retailer may take as long to sell a single article as the wholesaler takes to sell a gross. Naturally, the retailer requires payment for the extra time taken, since it involves the employment of additional assistants.

2. The retailer's premises must be in a more attractive position than those of the wholesaler, and for this he has to pay a relatively higher rent, which he recoups from the consumer if he can, or he aims at covering it by increasing his turnover.
3. The retailer must spend time and money in window dressing and maintaining the appearance of the interior of his premises. Wholesalers, on the other hand, have no need to pay much attention to these points, although they frequently do so.
4. The retailer's customers look for numerous services. They expect him to deliver goods without extra charge, to provide neat bags and wrappers for their purchases, and in some cases even expect him to call for orders. For these services the retailer makes allowance in fixing his selling prices.

It is true, of course, that the wholesaler has certain expenses to meet which the retailer does not bear. He has, for example, to pack goods and to pay for their carriage to the retailer. But his packing is not so expensive as that of the retailer, for he packs in larger quantities; in some cases the cost of packing is charged to the retailer unless and until the packing materials are returned. The cost of carriage is a fairly heavy item, but by sending in bulk special terms can be arranged with the carrier, and where the goods are delivered by the wholesaler's own delivery service the cost is as a rule considerably reduced.

Marking Prices: The "Cypher" System.

The majority of goods sold retail are disposed of at standard prices, fixed, very often, by the manufacturer, and where this is the case there is no reason why the retailer should not mark the selling prices distinctly on the goods so that customers may be able to see at a glance what they are required to pay. Usually the price is marked so that it may be easily removed or obliterated, for people would naturally object to having the prices of their possessions published to the world at large, whilst articles which are commonly used as gifts would never sell if prices were marked on them so as to be indelible. Consequently, the prices on such articles are usually marked by means of the device known as a "cypher."

There would be little object in attempting to explain the great variety of cyphers used for marking prices, except that

it may be stated that they are frequently made up by the use of letters to indicate numerals, *e.g.*, numbers 1 to 10 may be indicated by the letters P to Y. In any case, however, the cyphers must be concise, legible and unmistakable, so that they can be distinguished immediately by any one of a number of assistants. If they fail to satisfy these requirements they are best not used.

Apart from the question of secrecy, the cypher system is often used in connection with goods whose price is elastic. It is well known that articles such as jewellery are sold at varying prices to different persons. The retailer asks the highest price that he thinks the customer may be willing to pay, and, where it is necessary in order to effect a sale, he will allow his prospective client to beat him down a little. The cypher, however, indicates the limit below which the price must not be lowered, and this is frequently indicated by a cypher of the cost price of the article to the retailer. By this means the shopkeeper avoids marking cost prices on the goods in such a manner that the customer can read them.

It is in connection with cost prices that the retailer makes most frequent use of cypher. At stocktaking times he must have his cost prices readily available, and the best possible method is to have them marked on the actual articles. Again, when a " sale " is to be held, and prices are to be reduced, the retailer has to refer to cost prices before marking down his sales figure, and for this purpose, too, the marking of the cost price in cypher on the articles is a means of saving a vast amount of time and trouble.

It may be noticed in passing that codes or cyphers are used for marking prices in the wholesale trade also, and as a rule these are devised so that they shall not be intelligible either to the retailer or to his customers.

Growth of the Retail " Unit."

The size of the retail selling unit has of late years tended towards expansion, as is evidenced by the growth of departmental stores (Chapter 31) and of multiple shops (Chapter 30), and, although the small retail shop is still predominant, in some trades it is steadily being driven out.

There are obvious advantages to be gained from large-scale trading, the most notable being those derived from buying in large quantities. The small retail business has not the capital or the accommodation to indulge in buying on a large scale, and thus loses the benefits which the large stores gain from their greater bargaining strength. The wholesaler can naturally afford to give a bigger discount for bulk purchases and hesitates to risk losing a good customer. The large concern can also spend more in advertising its goods, and is better fitted to

stand a period of trade depression. These and other advantages general to any large-scale organisation are causing the large-scale retail unit to become more and more popular.

But in certain trades, such as tailoring and dressmaking, the small-scale retailer is still able to hold his own. In these trades he relies on personal service, tradition and custom in his struggle to survive the competition of large-scale retail units.

It is the realisation that he can hope to survive only by attention to the personal element which has induced the small retailer to develop the system of delivering goods free of charge, and of calling periodically at his customers' houses to receive orders, thus saving them considerable time and trouble.

Large-scale retail organisation usually develops either on "horizontal" or on "vertical" lines. Horizontal development occurs when the concern deals in goods in one stage of production only. Thus, a departmental store such as Harrod's buys its stock ready for sale and does not as a rule manufacture the goods or deal in any way with the raw materials. Vertical development occurs when a concern not only distributes its goods to the consumer, but also manufactures the goods, and, possibly, controls sources of supply of the raw materials. An example of this is Liptons, a concern which owns tea plantations, prepares the tea ready for sale to consumers and finally retails the commodity. Vertical development is most prominent in multiple shop concerns, in which the variety of articles sold is not so great as in departmental stores. Sometimes, again, horizontal and vertical development are combined in the one business. Liptons sell not only the tea which they themselves produce but also other commodities which they purchase ready for sale to consumers.

QUESTIONS BEARING ON CHAPTER 29

1. Explain, with references to specific articles, how the conditions under which retail trade is carried on vary with the nature of the commodities handled. (*R.S.A., Stage II.*)

2. Enumerate a few of the leading differences between a retail shop and a wholesale warehouse. Do they possess any features in common in respect of organisation? (*R.S.A., Stage I.*)

3. If you desire to set up a retail stores, what enquiries would you make before coming to a decision as to locality and premises? (*R.S.A., Stage I.*)

4. Enumerate some of the items comprising the capital of a retail trader, and explain how such a trader's capital may alter in the course of business. (*R.S.A., Stage I.*)

5. Set out the arguments for and against the acceptance of credit by retailers. (*R.S.A., Stage I.*)

6. What do you understand by the fixed and by the circulating capital

of a business ? How far can this distinction be made in the case of a retail trader ? (*R.S.A., Stage I.*)

7 You are considering setting up as a sole trader in a retail shop. Select a particular branch of trade and write a short summary of the preliminary problems that will confront you. (*R.S.A., Stage I.*)

8. What does a retail trader mean by his capital ? How does his conception differ from that of a master plumber or a small manufacturer ? (*R.S.A., Stage I.*)

9. From what sources does a retailer obtain his stock and how does he adjust it to his sales of goods ? (*R.S.A., Stage I.*)

10. What considerations should a retail grocer bear in mind in deciding as to the amount of stock to be carried by him ? (*R.S.A., Stage II.*)

11. Explain the meaning you attach to capital in the case of an individual retail trader. Distinguish between his fixed and his circulating capital. (*R.S.A., Stage I.*)

12. "The policy of 'small profits, quick returns' is the only one applicable to contemporary conditions in English retail trade." Explain clearly what this statement means, and give your opinion concerning its correctness or otherwise. (*R.S.A., Stage II.*)

13. What is the difference between an invoice and a *pro forma* invoice ? Outline the routine you would impose, as manager of a large retail shop, for the efficient checking and passing of invoices for goods purchased. How would *pro forma* invoices be dealt with in your system ? (*R.S.A., Stage II.*)

14. Explain in what respects the methods of business (including organisation) of a greengrocer differ from those of an ironmonger. (*R.S.A., Stage I.*)

15. Discuss the principles which would guide you in the conduct of the credit trade of a large retail business. (*S.A.A., Inter.*)

16. Of what does the capital of a retail ironmonger consist ? (*R.S.A., Stage I.*)

17. Why is it usual in fixing selling prices in retail trade to provide for a gross profit larger than that of the wholesale trade in the same goods ? What, generally, should be the relations between the gross profits in the two cases ? (*R.S.A., Stage III.*)

18. Discuss the "Hire Purchase System" as a solution to the need for an incentive to industry, and also comment on the effect of its rapid growth in recent years. (*S.A.A., Final.*)

19. What distinction would you draw between the capital of a retail business and that of a wholesale warehousing concern ? (*R.S.A., Stage II.*)

20. Show the distinction between an article bought on the Instalment System and on the Hire Purchase System. (*C.A., Inter.*)

21. Explain the method of selling on the hire purchase system, and show its advantages and disadvantages. (*C.A., Inter.*)

22. What is the difference between "hire purchase" and "deferred payments" ? Describe recent developments in England in connection with either. (*R.S.A., Stage II.*)

23. Describe in a little detail some of the different types of organisation to be found in the retail trade of this country at the present time. (*R.S.A., Stage II.*)

24. Contrast the several forms appearing in retail trade when the endency towards business on a large scale asserts itself. (*R.S.A., Stage III.*

CHAPTER 30

MULTIPLE SHOPS

A MULTIPLE SHOP consists of a number of similar shops owned by a single business firm. Thus it is essentially a horizontal combination of like selling units specialising in one or two definite kinds of merchandise, such as fish (MacFisheries), groceries and provisions (Liptons), books and stationery (W. H. Smith & Son), refreshments (Lyons), men's wear (Austin Reed), household requisites (Salmon), to quote but a few examples. The advantages accruing as a result of specialisation in a few commodities are those of ease and economy in buying, together with a speedy and larger turnover at lower prices.

There are, however, certain highly successful multiple shops which do not specialise so markedly and which deal in a wide range of commodities. Boots, for example, started as chemists, but now supply a great variety of articles, whilst the larger co-operative societies, and concerns such as Woolworths, are in the nature of multiple departmental stores, having numerous branches, each of which is divided into departments dealing with different classes of goods.

Frequently, too, multiple shops assume manufacturing functions, themselves producing the goods which are sold in their shops. Woolworths, for instance, have their own factories; Boots manufacture many of their own products; while multiple shops selling men's suits invariably have their own factories. Thus, in many cases, the multiple shop combines in itself both horizontal and vertical organisation.

Management and Control.

The branches of a multiple shop are organised from the head office. As a general rule, the concern is constituted as a limited company, in which case the supreme control is in the hands of the managing director, who is personally responsible for his conduct of the undertaking to the Board of Directors.

Each of the branches is run by a branch manager, who has to make either a daily or a weekly report to headquarters, showing, among other things, the total sales, the total expenditure incurred, and the estimated stock of goods on hand. The powers of a branch manager are somewhat restricted. He takes no part in the direction of the concern as a whole and has nothing to do with the production or buying of the goods

which he sells. His responsibilities are confined to the efficient management of the particular branch of which he has charge. and he has usually to sell at prices fixed for him by his head office. But although his powers are thus limited, the success of the enterprise depends largely upon his zeal and ability, and upon the capacity he displays in turning local conditions to the best account.

If the concern is one in which the branches are numerous and widespread, then the shops are divided into territorial groups, each of which is under the supervision of a district inspector. In this case, the branches send their returns to the district inspector, and he in turn sends them on to headquarters. Thus, the branch managers are immediately responsible to their respective district inspectors, the district inspectors to the managing director, and the managing director to the Board. In this way responsibility is delegated and control established throughout the system. Moreover, if the business of any of the branches is declining, the reports submitted will immediately reveal the fact, and steps can be taken to deal with the matter before any serious loss is sustained.

Locality and Premises.

The multiple shop has a great advantage over the departmental store as regards the locality and type of its premises, for whereas the departmental store must be centrally situated and requires extensive premises, the multiple shop can open a branch in any fairly populous district where there seems a favourable opportunity of doing business. The activities of most multiple shop concerns are widespread, some having branches in all parts of the country, and being equally well known in London, the Midlands and the North of England.

As a general rule, all branches of the same multiple concern are uniform in character and distinctive in appearance, so that each can readily be identified by the public as belonging to the same firm and, therefore, as likely to supply the same commodities at the same advertised prices.

Supply of Stock.

Since all purchases of goods required by the various branches are made from headquarters by skilled and experienced buyers, the multiple firm has the advantage either of supplying all branches with its own products or of buying goods of uniform quality in large quantities at reduced prices. In addition, by centralising the stock, a further economy is effected, since each branch can be supplied with just the amount of stock it requires for its immediate needs, and an accumulation of surplus stock at the various branches is avoided.

The branches are usually supplied by motor vans either from

headquarters, which is often a central depôt and performs very much the same functions as a wholesale warehouse, or from the district depôt in charge of the district inspector. Usually the stock is issued to the branches at the actual *selling* prices, fixed by the general management, and by this means a highly effective and easy check is maintained on the stock at each branch and on the sales made thereat.

Where multiple shops purchase their stocks from wholesalers, they are usually given greater consideration and better terms than the sole trader, for they buy in larger quantities and at more frequent intervals, with the result that the wholesaler is able to effect economies in packing, handling, delivery and similar items, part of which he passes on in the form of lower prices. Many multiple shops, however, are opened by big manufacturers or producers with the sole object of putting their goods on the market without the intervention of the middleman, thus saving the middleman's profit, *e.g.*, Burtons, the clothiers.

Branch Expenses.

Multiple shops are almost invariably run on a cash basis. As a rule, the cash takings of each branch are banked daily through the local branch or agent of the firm's bankers, and it is not usual for the branch manager to be permitted to use any of the takings to meet current expenses. Establishment and other charges, including the wages due to the assistants, are usually paid direct from headquarters, but occasionally this practice is varied, and either the manager is allowed to make his payments out of current takings or a weekly cheque is sent to him so that he can make the necessary payments.

Branch Returns.

In those cases where the business is entirely on a cash basis, the records kept by each branch are of the simplest nature, and no record need be made of purchases (other than Petty Cash purchases), debtors, creditors and similar items.

The chief records maintained are a *Stock Account* and a *Weekly Cash Account.* These are written up in a book specially prepared and provided by Head Office for the use of the branch manager, both accounts usually being printed on one page, so as to record a consecutive weekly summary of the whole of the branch transactions. Copies of these accounts are transmitted to Head Office every week, together with a detailed schedule relating to the stock.

As stated previously, cash is banked daily, and the counterfoil paying-in slips, together with all the receipt counterfoils, where receipts are given to customers, must be sent to Head Office with the Weekly Cash Account, of which the specimen on the next page is a common form.

MULTIPLE PROVISION STORES LTD.

Bedford Branch

WEEKLY CASH ACCOUNT
for week ending 10th Jan. 19 .

Dr. Cr.

19 .								19 .							
Jan. 10					£	*s.*	*d.*	*Jan.* 10					£	*s.*	*d.*
	To Cash in Hand . .				110	0	3		By Payments into Bank :—						
	„ Cash Sales :—									£	*s.*	*d.*			
		£	*s.*	*d.*					Monday .	100	0	3			
	Monday .	87	6	3					Tuesday .	87	6	3			
	Tuesday .	69	15	7					Wednesday	69	15	7			
	Wednesday	91	13	4					Thursday .	91	13	4			
	Thursday .	42	3	8					Friday .	42	3	8			
	Friday .	121	9	1					Saturday .	121	9	1			
	Saturday .	156	11	5									512	8	2
					568	19	4		By Balance in Hand .				166	11	5
					£678	19	7						£678	19	7

The balance on hand at the beginning of the period consists of the cash takings for the Saturday of the previous week, plus £10 "till money," *i.e.*, the money left in the till for purposes of change. Similarly, the balance on hand at the end of the week includes Saturday's takings plus till money. In those cases where the manager is allowed to use part of his cash receipts from sales to pay wages and expenses, the form of weekly cash account given above is modified to include summarised particulars of the expenditure.

The Stock Account is usually in the following form :—

MULTIPLE PROVISION STORES LTD.

Bedford Branch.

STOCK ACCOUNT
for week ending 10th Jan. 19 .

Dr. Cr

19 .								19 .							
Jan. 10					£	*s.*	*d.*	*Jan.* 10					£	*s.*	*d.*
	To Opening Stock. .				946	7	4		By Cash Sales :—						
	„ Goods from H.O. :—									£	*s.*	*d.*			
		£	*s.*	*d.*					Monday .	87	6	3			
	Monday .	203	6	4					Tuesday .	69	15	7			
	Tuesday .	67	1	8					Wednesday	91	13	4			
	Wednesday	45	3	4					Thursday	42	3	8			
	Thursday .	117	11	5					Friday .	121	9	1			
	Friday .	95	7	3					Saturday .	156	11	5			
	Saturday .	168	4	11									568	19	4
					696	14	11		„ Returns to H.O. .				34	3	7
									„ Allowances for deficiencies, etc. .				4	10	6
									„ Balance, being closing stock on hand .				1035	8	10
					£1648	2	3						£1648	2	3

This account more or less explains itself. A record is kept at Head Office of the goods sent each day to each branch, and this is compared each week with the amounts shown in the Stock Accounts received from the branches. "Returns to H.O." represents goods returned to Head Office by the branch, usually because of some defect. The "allowances" item represents the deficiencies between the actual stock on hand and the amount of stock which should be on hand according to the Stock Account. These allowances are sometimes based on a definite percentage, especially in the case of provisions, as it is impossible to weigh up successive pounds of, say, butter with absolute accuracy, and any amount over the percentage must be accounted for by the branch manager. In other cases, the allowances are given on account of breakages, natural wastage, and so on.

The amount of stock on hand can easily be checked, either by the branch manager or by some other official. Thus, from time to time the district inspector calls unexpectedly at each branch in his district and verifies the accuracy of the Stock Account by comparison with the actual stock on hand.

Advantages and Disadvantages of the Multiple Shop System.

The multiple shop offers the greatest advantages where the goods distributed are in universal and regular demand, are capable of being standardised, are suitable for bulk handling and are not quickly perishable. Further, the goods should be necessaries rather than luxuries, so that a lower price will divert custom from other retailers. Groceries and provisions possess these qualities to a high degree and, consequently, a large proportion of the grocery and provision sales is made by multiple shops.

The multiple shop system, like the departmental store, enjoys all the advantages which normally accrue to large-scale enterprise, such as the economies of buying in large quantities, of centralised and highly efficient control, and of expert general advertising of the firm's special lines. In addition, the system benefits in certain ways peculiar to itself:—

(1) Shortage of stock at any one branch can be remedied by transfers of the required stock from near-by branches at short notice. This is a distinct advantage over small retail concerns and departmental stores. The former may be willing to help one another, but are not always in a position to do so, whilst the latter may have no other immediate source upon which to draw.

(2) A speedy turnover of stock is attained. This can be accelerated by studying sales figures to discover which goods have a large sale and which are slow sellers, and then concentrating advertising effort on the latter. In this direction, the multiple shop concern benefits from having available reliable figures of sales in all

districts and from the greater financial resources at its disposal.

(3) An advantage accruing partly from a speedy turnover is that multiple shops are able to run their businesses at a slightly lower cost than other types of retailers. This, of course, is helped by the fact that bad debts are eliminated, as business is invariably on a cash basis, which in turn saves the expense of maintaining a large clerical staff.

(4) The multiple shop benefits also from the fact that its numerous branches can cater easily and efficiently for customers at a comparatively short distance from their homes. The total number of its customers is therefore larger than that of the departmental stores, which, through being centrally situated, requires its customers to travel longer distances.

(5) Each branch of the firm is in itself an advertisement for the other branches, and, so long as the goods sold are of good quality in relation to their price, there seems to be no limit to the number of branches which a highly organised and efficient concern may control.

The multiple shop system offers the least advantages where the demand for the goods is narrow and widely fluctuating, and where the goods cannot be standardised but must suit the buyer's personal requirements, *e.g.*, clothes and furniture made to order. Luxuries cannot be made the subject of a price appeal because buyers may suspect defects in quality if the price seems unduly low. The multiple shop system, also, has little scope where the customer expects personal attention and such services as delivery and extended credit terms.

It is sometimes said that the activities of the multiple shops are harmful to the local tradesmen, on the ground that its keen competition has the effect of crushing the small retailer out of existence. There is obviously some truth in this, but, none the less, many small retailers do a flourishing business, and it would appear that the local tradesmen who suffer most severely from this competition are those whose businesses are run inefficiently or on old-fashioned lines. The efficient small retailer, by making capital of his personal services, direct attention, and specialised lines, should still be able to hold his own.

It has been said, too, that the multiple shop will in time drive the departmental store out of existence. This, however, is improbable, for the departmental store has always the attraction to the shopper that it can supply a great variety of goods under one roof.

Both types of businesses have certain disadvantages in common. The chief of these is the absence of the personal

element both as between shop and customer and as between employer and employee. In some cases, in order to encourage interest in the business, a departmental or branch manager is paid a certain percentage on the sales or on the profits, in addition to a fixed salary. In all of these large concerns the cost of maintenance is high, though this is less so in the case of multiple shops, as they do not have to bear the expense of non-profit-earning departments, such as staff kitchens and rest-rooms.

Tied Shops.

In some businesses, notably brewers and jewellers, the retail units are known as "tied shops." Breweries, for example, purchase or erect public-houses and hotels within reasonable distance of the brewery and rent the houses to tenants or proprietors on condition that they give preference to the products of the brewery. Similarly, manufacturing jewellers set private individuals up in business on condition that they stock the goods supplied by the manufacturer. In some cases the retailer may be required to sell only the manufacturer's goods; in others, he may have to sell a certain proportion of them.

QUESTIONS BEARING ON CHAPTER 30

1. Taking a "multiple shop" firm as one owning six or more branches, the following figures relating to such firms selling provisions are extracted from records collected by the Ministry of Food in 1918 :—

Number of firms	35	52	22	9	11	9	3	5
Average number of branches owned by each of these firms	7	14	25	40	70	120	220	560
Average number of families served per branch	95	109	130	85	134	170	177	350

Examine these facts carefully and indicate what conclusion they suggest concerning the "multiple shop" problem in the English retail provision trade. (*R.S.A., Stage II.*)

2. Distinguish between Departmental Stores, Multiple Shops, and Multiple Departmental Stores, giving examples of each from your own district. Is it possible for any or all of such concerns to develop in every division of retail trade?

Give reasons for your answer. (*R.S.A., Stage II.*)

3. What do you understand by "horizontal" and by "vertical" development in the growth of a multiple shop or a departmental store concern? Give examples. (*R.S.A., Stage II.*)

4. "The problems which confront those responsible for the conduct of a large multiple shop business are far more involved and complex than a mere multiplication of the problems of the single shopman."

What are the special problems of the multiple shop referred to in this statement? How far, in your opinion, is the statement true? (*R.S.A. Stage III.*)

5. Examine the distinctive features of the multiple shop system in retail trade. What are its principal advantages and disadvantages? *R.S.A., Stage II.*)

6. What are multiple shops and departmental stores? Why does the multiple shop confine itself generally to one particular class of goods? (*London Chamber of Commerce, Certif.*)

7. Discuss the growth of the multiple shop form of trading, and describe briefly how this type of business is organised. (*R.S.A., Stage II.*)

8. Discuss means by which a sole trader can effectively combat the competition of multiple shop, departmental store, and mail-order companies (*R.S.A., Stage III.*)

9. Distinguish between the expansion of a business upon the lines of a departmental store opening up new departments, and a multiple shop opening up new branches. (*R.S.A., Stage III.*)

10. What are the chief advantages possessed by a retail shop conducted by its owner over a retail shop forming one of a group of multiple shops? Under what circumstances is the latter the more successful form of business? (*R.S.A., Stage II.*)

11. What tendencies are specially noticeable in this country as far as size of the business unit in retail trade is concerned? Justify your statements by examples. (*R.S.A., Stage III.*)

12. How far, in your opinion, does the multiple shop system in retail trade lead to standardisation, simplification, and specialisation in the details of the business carried on? (*R.S.A. Stage II.*)

CHAPTER 31

DEPARTMENTAL STORES : MAIL-ORDER BUSINESS

A DEPARTMENTAL STORE is a large retail establishment having in the same building a number of departments each of which confines its activities to one particular kind of trade, and forms a complete unit in itself, as, for example, the Furniture Department, the Grocery Department and the Drapery Department.

A retail business of this description may be looked upon as a number of shops collected under one roof and under one management. Departmental stores originated to cater for the better class of customers who require commodities of good quality and who look for *services* and facilities in connection with their purchases which the smaller retailer cannot supply. The growth of such stores is due largely to the elaborate development of this policy, and stores of world-wide renown, such as Harrods, Selfridges, Whiteleys and Gamages, are among those which have prospered remarkably as a result of attention to service and extreme regard for the customers' wishes.

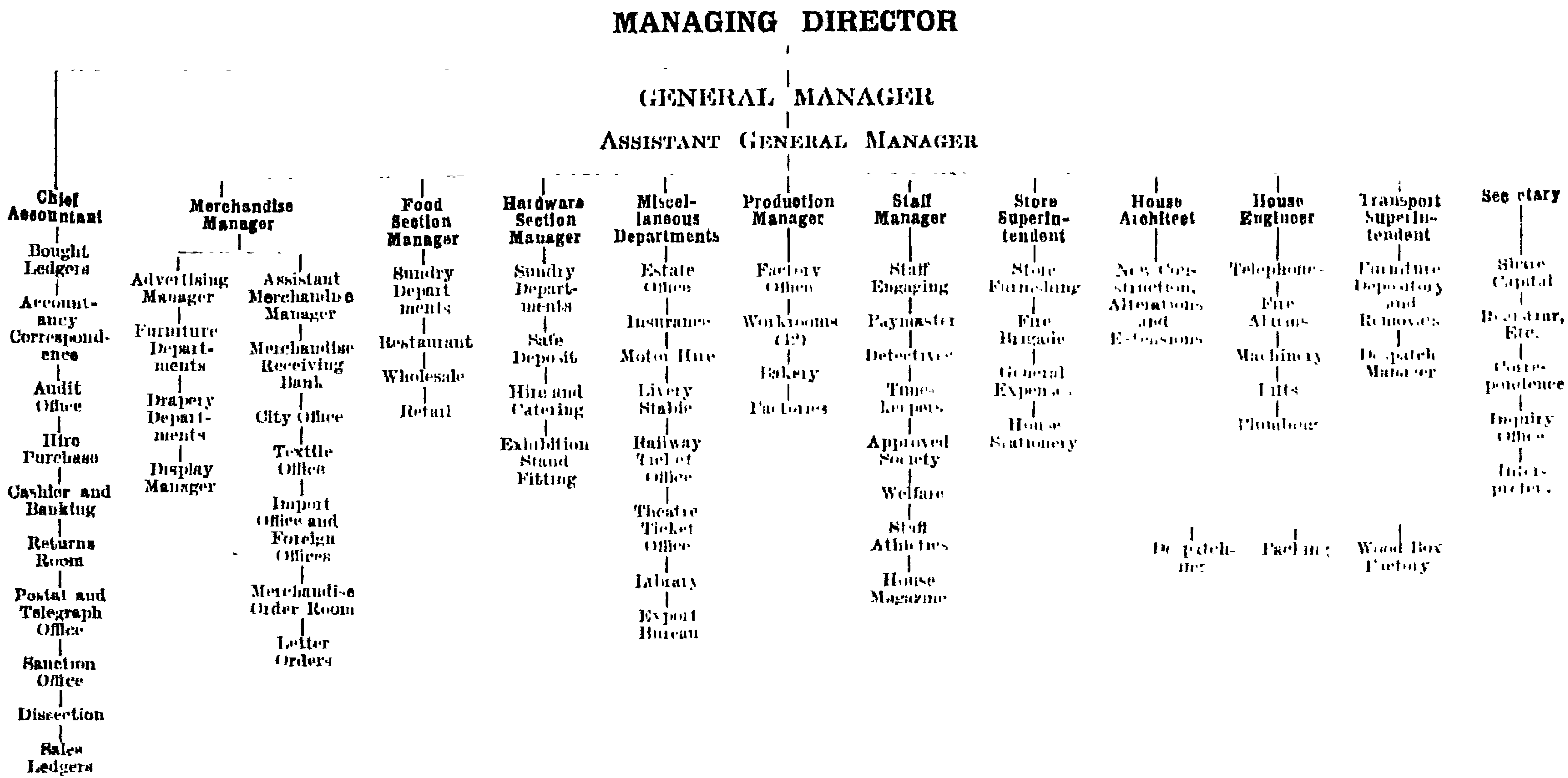
Locality and Premises.

As the Departmental Store depends for its success upon attracting customers from all quarters of the town, it almost invariably occupies a central position. Its premises are usually of an extensive description, luxuriously appointed, and provided with every conceivable comfort, including writing-rooms, rest-rooms, a theatre booking-office and an information and travel bureau. The wisdom of running these non-profit-earning departments has sometimes been questioned, but since the essential purpose of a store is service, and these departments contribute very materially to that end, they fully justify their existence.

Control.

A Departmental Store is usually constituted as a limited company, of which the control is vested in a Board of Directors. As the members of this Board are usually chosen more for their shrewd business outlook or wide general experience of affairs than for a practical and first-hand knowledge of the particular business, the actual management is in practice delegated to a *Managing Director*, who is in supreme charge of the concern,

ORGANISATION OF A DEPARTMENTAL STORES (Harrods)



but is responsible to the Board. In most big stores there is also a *General Manager*, who is subordinate to the managing director, but whose jurisdiction extends over all departments.

Section Managers.

Immediately subordinate to the managing director (or to the general manager, where there is one) come the *Section Managers*. *A Section* is a division of the business comprising several allied departments. At Harrods Stores, for instance, there is a Merchandise Manager, a Food Section Manager, a Hardware Section Manager, a Production Manager, a Staff Manager and so forth. It is the duty of the section manager to correlate the activities of the various departments in his section, and he is directly responsible to the managing director, or to the general manager, as the case may be, for this part of the work.

These section managers, some of whom may be working directors, form a *Board of Management*, the chairman of which is the managing director, or, in his absence, the general manager. In most stores this Board meets about once a week, when broad questions of management are discussed and important decisions taken as to the conduct of the business as a whole.

The section manager will naturally be a man who has a knowledge of the wider activities involved in the conduct of a section, in contradistinction to the more specialised activities of the departmental manager.

Departmental Managers.

Each section is divided into various departments, each of which is in charge of a manager, who in the selling departments is called the *Buyer*, and in the non-selling departments the *Departmental Manager*. At Harrods, for instance, the Hardware Section is divided into over thirty departments, including the Ironmongery Department, the China and Glass Department, the Piano Department, the Fancy Leather Department and so on.

Each buyer has under him a staff of salesmen, for whom he is responsible. It is his duty to see that they are efficient and courteous to customers. He is also in charge of expert window-dressers who are often employed solely on account of their skill in this direction. The manager must so arrange matters that his department is neither understaffed nor overstaffed. The former is an annoyance to customers as they are kept waiting, whilst the latter adds unnecessarily to the expenses of the department. He must also attend to the cleanliness and arrangement of his section of the store.

The buyer occupies a position of the greatest importance in a department store, as it is largely upon his skill and discre-

tion in buying that the prosperity of a store must ultimately turn. If he misjudges the public taste and buys goods that fail to sell, he may be left at the end of the season with a large surplus of stock and a resultant net loss. In purchasing his stock he cannot afford to depend upon the judgment or advice of others, but must himself keep in intimate touch with the world markets dealing in his particular goods, and even proceed to the actual sources of production. He should arrange for a careful record of all purchases and of the sources of supply, and, if possible, should install a standard method of ordering.

Stores have the advantage of buying their merchandise on the best possible terms. Their operations are conducted on such a large scale that not only can they buy at the lowest prices, but also they can obtain by prompt payment the advantage of big trade discounts. Moreover, it is nowadays by no means uncommon for two or more stores to co-operate in their buying, so that they often take the entire output of a manufacturer.

Since the buyer is responsible for the success of his department as a whole, he is allowed a considerable degree of freedom in its running. But, none the less, he is subject to certain restrictions, and these restrictions act, in a sense, as an automatic check on his activities. For example, he is usually allotted each month a definite sum with which to make his purchases, and he cannot exceed that limit unless he has special authority to do so. Nor has he perfect freedom of action on the selling side. All big businesses have a reputation to maintain, and the buyer's activities must be in harmony with the general policy pursued. It is possible, indeed, for a buyer to make *too much* profit; that is to say, he may have made a success of his own department, but, in doing so, may have extracted excessive profit from the public and so damaged his firm's reputation in the process.

Salesmanship in the great stores has, of necessity, been reduced to a fine art. The stores depend entirely on the success with which they can induce the public to buy. Hence, periodic sales and shopping weeks, when extremely attractive bargains can be obtained, are arranged, and special intensive advertising campaigns are undertaken from time to time.

Departmental Expenses.

Since each department is a unit in itself it may for all practical purposes be regarded as an independent shop. Hence, each department is debited with such expenses as its purchases, salaries and a certain proportion of overhead and administrative charges (such as rates, taxes, rent, light and management), which is usually based on the ratio of the turnover of the department concerned to the total turnover, or on the proportion of floor space occupied by the department.

Receipt and Despatch of Goods.

The receipt of goods purchased requires careful organisation, as also do the despatch and delivery of goods which are not taken immediately by the customer. It is convenient to have not one but several stock rooms, each situated adjacent to the department it is intended to serve. A copy must be made of every order given for incoming supplies, and when the invoice is received the two must be compared. The goods must be checked on arrival with the copy of the order before they are taken into stock. Invoices received from suppliers, having been checked against the goods, are marked as checked and returned to the Accounts Department, where the selling price is fixed. Sometimes prices are marked on the goods before they are placed in the store. As and when additional stock is required for a department, the department head sends a requisition to the stock room, and when the goods are delivered to him he has them checked and initials the requisition. It is the duty of the storekeeper to keep the buyer informed when the quantities of stocks on hand fall to the minimum previously agreed upon between them.

Goods left by customers to be delivered by the firm are first assembled by the salesman concerned, and when they are ready the salesman informs the Despatch Department, which collects the goods with the particulars attached. The goods are then parcelled and addressed and placed ready for the vanman. Frequently a particular district is allotted to each van, in which case the parcels must be sorted after packing. Each vanman is given a delivery sheet with particulars of all parcels to be delivered on each round, and as each parcel is delivered, the delivery sheet is signed by the recipient.

Payment for Goods.

Most of the goods sold by departmental stores are paid for at the time of purchase. Each salesman is given a number and is provided with a manifold book of invoices or sales vouchers, whereon he enters the particulars of each sale, and inserts his number and the amount of cash received from the customer, the receipt or voucher being thereafter initialled by the department head or by a senior salesman. The allocation of a number to each salesman provides an easy method of tracing the sale in case of dispute or complaint. The cash received is sent with the original receipt (detached from the manifold book) to a central office by means of overhead wires or by pneumatic tubes, or is recorded and inserted in a cash register by the salesman, or is taken personally to a central cash desk. In the case of automatic carriage, the receipt and change (if any) are returned by the same means, and are handed with the goods

to the customer, the duplicate receipt being retained by the salesman in his manifold book.

In some stores credit is allowed to approved customers on a monthly (or other periodic) account. In other cases goods are paid for on delivery at the customer's address. In the former case, particulars are sent to the Cashier's Department, where they are entered in the customer's account, and a copy of the account is sent to the customer at the end of the agreed period.

The system of payment for goods on delivery is a type of C.O.D. (cash on delivery—see page 468). In such cases, the particulars are sent with the goods to the Despatch Department, and a note of the amount payable is made on the delivery sheet of the vanman concerned. The vanman then collects the amount due on delivery and issues a receipt therefor. When the vanman returns, his counterfoil receipts, the amounts entered on his delivery sheet, and the total cash he hands in are carefully checked.

Most of the larger departmental stores now sell goods on the instalment plan, the main features of which have already been explained in Chapter 29.

Central Finance.

The money taken by each department or by the central cash desks of a departmental store is totalled and checked either daily, or more frequently, with the duplicate receipts in the salesmen's books. It is then forwarded, together with the duplicate receipts and a summary and total of the cash taken, to the Accounts Department. Here the cash is again checked, the duplicate receipts are sorted into departments and the amount received from each department is totalled on an adding machine. The total of the cash received from each department must agree with the total which is submitted by the department head, and which he calculates from the duplicates in his salesmen's books. Finally, the money is banked as soon as possible.

The Accounts Department also receives the checked invoices from the stock rooms, and these must be compared with the original orders and with the statements sent in by suppliers. At agreed periods suppliers' accounts are settled by cheque. The same department deals with wages and administrative expenses such as rent, light, advertising, and rates, and prepares periodical statements, profit and loss accounts, and the firm's balance sheet at the end of each accounting period. This department usually has also the duty of preparing comparative statistics at periodical intervals (*e.g.*, every week or every month) of sales, number of customers, and similar matters for submission to the management. In up-to-date stores, detailed statistics of each department are prepared in order that they may be compared with a view to ascertaining which, if any, of the

departments are working at a loss or are subject to unnecessarily heavy expenses.

Advantages and Disadvantages of the Departmental Store System.

The departmental store is perhaps the most notable development in large-scale retail enterprises, and the tendency is for these large-scale enterprises, by absorption and amalgamation, to become even larger. It is contended by many that the small retailer will in time be completely extinguished by the larger concerns; but this is doubtful, for the small retailer in several trades still has great advantages over the mammoth organisations.

A departmental store is subject to all the advantages and disadvantages appertaining to any large-scale organisation, including the advantages due to the size of the business, advertising, and so on, and the disadvantage of the absence of the personal element (see Chapter 7). The following, however, apply particularly to the departmental store :—

ADVANTAGES.

(1) The possession of a central site gives a certain advantage over other retail businesses in less prominent positions.

(2) Service is usually exceptionally good. Thus, the variety of goods attracts customers; courtesy and fair treatment are the rule rather than the exception; and an extensive delivery service is an added attraction. Indeed, the motto of departmental stores is conveyed in the one word—" service."

(3) One department advertises the others. Most people pass through more than one department, and so are induced to make purchases in the same building which they might otherwise have made outside or not made at all. The ability of a customer to satisfy several wants in one building is of considerable convenience.

DISADVANTAGES.

(1) The elaborate services provided tend to increase overhead expenses.

(2) The position of such concerns, away from residential areas, gives an advantage to the smaller concerns who are more favourably situated " near the market." The latter consequently obtain all or most of the trade in articles required at short notice, and especially those of the perishable variety.

MAIL-ORDER BUSINESS

Mail-order business may be briefly described from the buyer's point of view as "shopping by post," and it appeals to the public largely on the score of convenience. The customer is enabled, as it were, to make his purchases at his own fireside and is thus saved the trouble of a journey to the retailer. The small retail trader is still able, however, to compete in most lines with mail-order concerns, because he also has a strong "convenience" appeal in his varied stock. All retail shops have the advantage of enabling the customer to *see* and to examine the goods he is about to purchase. The advertisements of mail-order businesses, on the other hand, often give a false idea of the quality of the goods offered. The wording is usually made as attractive as possible: it may be actually misleading, and, even when this is not the case, it is difficult for an illustration to convey a reliable impression of quality. Again, the expenses of advertising tend to increase the cost to the consumer as compared with prices charged by small retail traders, and mail-order prices are probably higher than those charged in departmental stores and multiple shops. Other disadvantages of the mail-order business are: (1) there is no personal contact with the buyer; (2) the sales appeal is stereotyped and cannot easily be varied to suit different types of prospective buyers; (3) it is not easy to ascertain the causes of failure to effect sales.

Against these disadvantages must be offset the following advantages:—

(*a*) Salesmen's salaries and expensive shop-fronts, etc., are eliminated; though against this saving must be set the higher office costs, especially where follow-up is necessary.

(*b*) The sales department is in direct touch with the buyer.

(*c*) Advertising can be more effectively carried out, since results can be checked with fair accuracy.

(*d*) The actual selling is reduced to routine, the work being performed by low-grade (and hence cheap) labour.

(*e*) The sales appeal can be designed by experts and is not dependent on the capacity of individual salesmen.

Moreover, mail-order businesses usually have an advantage over the small retailer in the province of the instalment system, for the small retailer is handicapped by lack of capital, though he can finance himself to some extent by having recourse to a finance company. Departmental stores which have no mail-order departments probably suffer most from the competition of mail-order businesses, as they have not the off-setting advantage of being situated near to residential quarters, and thus consumers frequently find it more convenient to "order from home"

rather than to make a journey to the nearest departmental store.

It is obvious that not all goods are suitable for mail-order selling. As a general rule, the following conditions are necessary:—

(*a*) The goods must satisfy a well-defined need, *i.e.*, it must not be necessary to "educate" people in their use.
(*b*) They must lend themselves to pictorial representation and forceful descriptive writing.
(*c*) There must be a wide margin of gross profit.

Types of Mail-Order Businesses.

Although all mail-order businesses are essentially similar in principle, it is possible to classify them in the following manner:—

(1) THE MANUFACTURING TYPE, where the makers or manufacturers sell their products direct to the public without the intervention of middlemen.
(2) THE DEPARTMENTAL TYPE.—Many of the large departmental stores have a mail-order department.
(3) THE "MIDDLEMAN" TYPE, *i.e.*, a business concerned only with mail-order selling, where goods are bought from manufacturers in the required quantities and stored pending the receipt of orders by post from the public. This may be termed the true type of mail-order business.

Obtaining Orders.

Orders are obtained by means of publicity in the form of advertisements in the newspaper press or in periodicals, or by sending out price lists and catalogues, or by submitting patterns and samples to prospective buyers. In some cases, too, travellers are employed, either to visit the persons to whom samples have already been sent, or else to take out the samples themselves, in which case they are more in the nature of house-to-house canvassers. Frequently catalogues and price lists are sent at intervals to regular customers, a list of whose addresses is carefully recorded. This method applies particularly to departmental stores. Where the publicity is obtained by press advertisements, the literature is usually "keyed" so that when orders are received they can be sorted according to the key, which is designed with the object either of indicating the department which has to deal with the order or of showing from which advertisement the order has emanated. The latter system enables a rough idea of the cost of each form of advertisement to be obtained. The follow-up system is also extensively used in mail-order business.

Organisation.

Where a business is solely concerned with mail orders, buying is a comparatively simple matter, for goods are ordered according to a pre-arranged campaign. Thus, in winter, an intensive campaign for the sale of blankets may be initiated, in which case a quantity of blankets will be ordered from the manufacturers and stored pending the receipt of orders. In some cases the goods will be parcelled in varying quantities so that when orders are received it is necessary only to affix the addresses. In departmental stores the mail-order business is usually supplementary to the ordinary cross-counter selling and the goods are already in stock. Sometimes, however, a mail-order campaign is initiated with the sole object of clearing off old stock, usually at greatly reduced prices.

Orders received by mail are dealt with in rotation and are first sorted according to the class of goods concerned. The goods are obtained from the warehouse in the required quantities and thence taken to the despatch department, where they are parcelled and addressed. The orders are then dealt with by the clerical staff, who record the customer's name and address for future reference. It is also usual to record the particulars of each order, so that when customers are circularised in the future, they shall not be pestered with literature dealing with goods of the "non-recurrent" type which they have already bought, although this does not, of course, apply to goods of the "recurrent" type, *i.e.*, which are bought more than once by the same customer.

Records of mail-order customers are best kept in the form of a card index, for it is then possible to keep it up-to-date simply by inserting new cards and casting away obsolete cards. Changes of address also can be readily recorded, and the follow-up system is easily applied. The card index can be kept in any convenient form—alphabetical, geographical or occupational.

Payment.

In the majority of cases a remittance in payment for goods bought on the mail-order system is sent with the order, and it is, of course, important to ensure that when the letters containing orders are opened, the correct remittance is enclosed. If the remittance is below the required amount, the customer must be written to pointing out the error and requesting a further remittance for the balance. On the other hand, where the remittance is in excess of the required amount, the balance is usually returned to the customer, unless he runs an account with the concern, in which case he should be advised that the difference has been placed to his credit. In some cases the customer is required to remit a sum, over and above the cost

of the goods, to cover postage, and it must then be seen that the remittance is sufficient for this purpose. It is usual, however, for mail-order firms themselves to pay postage on all orders over a certain amount, say £1.

The "C.O.D." System.

The system of mail-order selling has in recent years received a great impetus as a result of the inauguration by the Post Office in this and other countries of a scheme whereby traders may collect payment for their goods on delivery through the post. This is known as the "*Cash on Delivery*" or C.O.D. system under which the goods ordered are sent to the buyer by post or rail, and the payment due, known as the "*Trade Charge,*" is collected from the addressee by the Post Office and remitted to the sender by means of a special ("crossed") Order. The trade charge is ordinarily collected by the postman, but if it exceeds £10 the parcel is retained at the Post Office, and notice of its arrival is sent to the addressee, who must attend at the Post Office and pay the trade charge. The addressee can then take the parcel or have it delivered by a postman in the ordinary way.

The fee charged by the Post Office for C.O.D. service is 4*d.* where the trade charge does not exceed 10*s.*; 6*d.* for sums between 10*s.* and £1; 8*d.* for sums between £1 and £2; 10*d.* for sums between £2 and £5; and an additional 2*d.* for every £5 above £5. The trade charge must not exceed £40, and must not require payment of a fractional part of a 1*d.* The ordinary postage is prepaid in the usual way, but the C.O.D. fee must be prepaid by affixing stamps to the counterfoil of the *Trade Charge Form* which the sender obtains and fills in at the Post Office. The trade charge cannot be altered or cancelled after the parcel has been posted.

In order to send a parcel C.O.D. by rail within the United Kingdom a *Combined Address and Receipt Form* must be obtained from the Post Office and filled in by the sender. The address portion is attached to the parcel, and the receipt part is signed or stamped by the railway company on receipt of the parcel, together with a fee of 3*d.* in addition to the ordinary rail charges. The receipt form which is provided must then be forwarded by the sender to the addressee by registered post as a C.O.D. registered letter, which is delivered to the addressee on payment of the trade charge. On presentation of the receipt the railway company hands over the parcel.

Parcels may be sent to certain countries abroad under the Post Office C.O.D. system. In addition to the address of the consignee, the sender must write on the parcel the word "Remboursement," followed by the amount, in sterling, of the trade charge, and must also fill in a special *Trade Charge Card,* which is returned in due course to the sender as a money order for the

full amount entered on it by him. The sender must pay a C.O.D. fee, additional to the ordinary postage fee, of 4½*d.* on parcels not exceeding £1, and an additional 2½*d.* for every additional £1, the maximum trade charge for most countries being £40. The sender must also obtain a *Certificate of Posting*, and the Post Office officials may demand the production of this certificate before cashing the trade charge money order. C.O.D. parcels received by the Post Office from abroad are delivered by the postman in the ordinary way, but for this service the Post Office charges the addressee a delivery fee of 4*d.*, irrespective of the amount of the trade charge.

Although the C.O.D. system has proved very popular it has the disadvantage that a customer cannot in many cases examine his purchase before paying for it, and he must, therefore, rely on the integrity of the seller. This objection, however, is not important if the article purchased is of known quality or design, or if the seller merits the complete confidence of the customer and is willing to deal satisfactorily with all reasonable grounds of complaint.

QUESTIONS BEARING ON CHAPTER 31

1. What method would you suggest for dealing with cash in a large departmental store where the takings (in cash) average £7000 per day? (*A.I.C.A., Inter.*)

2. The following table sets out percentages of the monthly turnover in the case of a large department store:—

Month.	Gross Profit per Cent.	Net Profit per Cent
July . . .	23·2	3·4
August . .	23·0	3·1
September . .	23·3	5·0
October . .	23·4	5·2
November . .	23·1	5·4
December . .	22·9	4·3

Suggest explanations as to why the net profit shows much greater variation than the gross profit. What further details would you require in order to calculate the rates of net profit and gross profit in relation to the turnover earned for the whole half-year? (*R.S.A., Stage II.*)

3. To what do you attribute the rise and expansion of department stores in England in recent years? What special advantages do such stores possess from the point of view of the general public? (*R.S.A., Stage II.*)

4. The following is an extract from the annual statistical report of a retail department store:—

Average Stock at Cost.	Annual Turnover.	Percentage Make-up on Cost (to obtain Retail Selling Price).	Cost of doing Business (Percentage of Retail Prices realised).
Department A, £3275	3½	40	16
" B, £720	6	33⅓	12½
" C, £1275	4½	25	10
" D, £85	2	50	15
" E, £100	1½	60	14

Find:—

(*a*) The *total* gross and net profit earned by the five departments.
(*b*) The average annual turnover of the five departments.
(*c*) The average make-up.
(*d*) The average cost of conducting the business.
(*R.S.A.*, *Stage II.*)

5. Explain how mail-order business is conducted and organised, and show under what circumstances purchasing by post is advantageous to the buyer. (*R.S.A.*, *Stage II.*)

6. What do you understand by the "mail-order" system? Describe how a business is conducted on these lines. (*C.A.*, *Inter.*)

7. What is "mail-order" selling? Examine the advantages and disadvantages of this method of conducting retail trade. (*R.S.A.*, *Stage II.*)

8. Do you consider that the metropolitan or city department store postal selling department can compete effectively with the local retail trader? Give reasons for your answer. (*R.S.A.*, *Stage II.*)

9. Discuss the effect of postal selling or mail-order competition on the small retail trader. (*R.S.A.*, *Stage II.*)

10. A friend proposes to commence a mail-order business for the sale of handkerchiefs, and has asked you to advise him as to details of carrying it on. Draft a memorandum for his guidance, setting out the details of what he should do to get the business properly going, and advise him generally as to the details of office organisation. (*C.A.* (*Ireland*), *Inter.*)

11. Do you consider that the postal selling or mail-order department of a large retail store can compete effectively with the local retail trader? (*London Chamber of Commerce, Certif.*)

12. Consider the relative advantages and disadvantages of conducting a mail-order business as—

(*a*) Part of the ordinary plan and routine of a retail concern.
(*b*) A special department of a retail business.
(*R.S.A.*, *Stage II.*)

CHAPTER 32

THE CO-OPERATIVE MOVEMENT

WITH the object of retaining for the consumer some of the benefits usually derived from industry by capitalists, a movement grew up in the middle of the nineteenth century whereby the consumers of goods combined either to produce those goods themselves or to purchase them *collectively* in order to eliminate the middleman and so obtain the goods more cheaply than would be possible by buying retail. The two types of co-operation are known as *Producers' Co-operation* and *Consumers' Co-operation* respectively. Of the two the latter has been by far the more successful.

Producers' Co-operation.

Organisations for collective production are associations of workpeople, owning and managing productive concerns in common, with the object of producing goods for their own consumption and for sale at a profit, in order to retain the profit which would otherwise go to the *entrepreneur* and the capitalist; and, by an application of the co-partnership system, to substitute an alternative method of labour remuneration in place of wages. The management is placed in the hands of one of the co-operators, who receives a fixed salary for his services, while he and his fellow-members share in any profits according to the amount of capital contributed.

The system has not been very successful as there is a tendency to ignore the importance of the functions of the manager or entrepreneur, whose ability and foresight are such vital factors in production.

Those responsible for co-operative enterprise insist that the profits accruing to the organiser are not necessary, but only too often the lack of an effective organiser and capable business manager—a man who has obtained his command by sheer ability and initiative—has left co-operative producers with losses instead of profits. Their managers are rarely of high order, for the co-operators are unwilling to pay the high rates of remuneration necessary to attract men of great ability. They are also greatly handicapped by petty jealousies which arise from the necessity of controlling men who are of the same class as themselves and who are part owners of the concern. In such circumstances, discipline and efficiency are difficult to attain.

For these reasons co-operative productive enterprises are restricted mainly to trades where little capital is needed, where special skill and care on the part of the workman are important, and where the cost of supervision is ordinarily so great as to render individual responsibility an important advantage.

Consumers' Co-operation.

Far more successful than Producers' Co-operation has been co-operation on the part of consumers. The object of this type of combination is to eliminate the middleman and to protect the interests of consumers (particularly those belonging to the poorer classes) against certain alleged defects in the present capitalist system of production. The main grievances of such consumers may be stated as follows :—

(1) That they are often induced to buy something quite different from what they intended. It is claimed that in modern society the mighty resources of advertisement are directed to inducing the consumer to buy commodities which he would not buy if he relied only on his own judgment. Consumers' grievances under this head are not of great importance, but it must be recognised that they do exist.

(2) That the supply of certain goods may be curtailed and the price raised by the action of monopolistic bodies of producers. This grievance has gained more weight with the growth of large-scale organisation. Even before 1914 in many branches of industry free competition had given place to combinations which were strong enough to exercise considerable control over output and over buying and selling prices. Great manufacturing businesses, banks, insurance companies, railways and shipping lines were either taking over small businesses or inducing them to enter into agreements to fix prices on a "fair basis" in order to prevent ruinous competition. This tendency towards combination was vastly strengthened owing to the Great War. It is alleged by consumers that monopolistic combines may find it profitable to make small sales at high prices to the detriment of the consuming public.

(3) That the prices of goods are unduly loaded with middlemen's profits. There is a widespread suspicion, more or less justified, that the price paid by the community for marketing functions is out of proportion to the services rendered by the agents who discharge those functions.

To remedy these defects consumers have voluntarily com-

bined to acquire and manage for themselves certain businesses which satisfy their most urgent needs.

Organisation of Consumers' Co-operation.

The unit of the movement is the local retail *co-operative society* whose members, besides being the customers, are also the owners of the retail store or stores. Each member of the society must be a shareholder and has a right to vote in the election of the committee of management. Usually, however, he need not pay for his share at once, provided he pays an entry fee of 1*s*. or 2*s*. 6*d*., and a weekly payment thereafter, or else allows his share in the surplus (*i.e.*, his *dividend*) to accumulate till he becomes a full shareholder. Each shareholder has only one vote, irrespective of the number of shares held by him. Interest on capital is paid at a fixed rate (from 4½ to 5 *per cent.*), although no interest is paid if no "profits" are made. Interest on capital, however, is a prior charge on the society's surplus and is cumulative, so that it is analogous to a debenture in the joint-stock organisation. The retail prices charged are usually those ruling in the neighbourhood, and the "profits" are employed to extend the society's operations, to support various social and educational objects and to provide for payment of dividend on members' purchases.

Purchases are indicated by tokens issued at the time each purchase is made, and though there is no objection to any person not a member of the society buying goods at a co-operative store, no such person is entitled to share in the dividends.

The various retail societies are to be found distributed throughout the country, especially in the great industrial areas, and it is estimated that they cater for about 40 *per cent.* of the families of the United Kingdom.

Each retail society is controlled by a general meeting of shareholders, but day-by-day management is entrusted to a committee of management consisting frequently of full-time paid servants elected by members. The committee is responsible for engaging and discharging all officials, none of whom may function on the committee.

Retail Society Regulations.

Retail societies are governed by the provisions of the *Industrial and Provident Societies Act* of 1862, by which each society is constituted a corporate body with limited liability, and the maximum shareholding for each member is placed at £200. The rules governing the majority of retail co-operative societies usually contain provisions similar to the following :—

(*a*) Capital to be provided by members and to be entitled to a fixed rate of interest ;

(*b*) Loan capital to be provided by deposits of members with the society;

(*c*) Only pure products to be sold, and strict precautions to be taken to ensure full weight and measure;

(*d*) All sales to be on a strictly cash basis, and the prices to be based on those ruling in the market;

(*e*) Profits, after payment of interest on capital, to be divided amongst members in proportion to their purchases;

(*f*) Definite percentage of profits to be utilised for social and educational objects;

(*g*) No restrictions on membership to be imposed (*i.e.*, religion or politics to be no bar);

(*h*) Each member to have one vote only, thus ensuring democratic government;

(*i*) Management to be in the hands of permanent officials, who are assisted by a committee elected each year.

The Wholesale Departments.

The consumers' co-operative movement has by no means confined itself to retail trading. To achieve independence of the capitalist wholesaler in the matter of supplies—particularly in the face of the opposition to such supplies offered by other local retailers—the local societies unite to form central wholesale societies, owned and managed on lines similar to those on which the local societies are conducted and having the local societies as members. Thus, in 1863, a number of societies combined to form the Co-operative Wholesale Society with its headquarters in Manchester, and this was followed later by the Scottish "Wholesale." These two wholesale societies have established their own factories, chiefly for producing foodstuffs and household goods, and now supply over five-eighths of the total goods bought by the retail societies. Besides these activities the English Co-operative Wholesale Society owns its own ships, farms, tea plantations, etc., and, in addition, transacts a considerable amount of insurance, building society and banking business.

The management of each wholesale society is in the hands of a general committee (consisting of thirty-two members in England and twelve in Scotland), all of whom are full-time salaried officials. It is justly claimed that these two committees, directing business enterprises in unison, and sometimes in partnership, with an aggregate annual turnover of over a hundred million sterling, afford in themselves proof of the ability of the workers to undertake some form of industrial self-government.

Criticisms of Consumers' Co-operation.

The co-operative movement, although undoubtedly very large and successful, has been the object of much criticism. The co-operator claims that his principles of organisation can be expanded indefinitely to include the whole economic system, but it is doubtful whether such an expansion is justifiable or even possible. The tremendous size of the organisation may become a serious menace to its success. Already the unpaid committees in the smaller societies are being replaced by salaried officials, and the individual member is beginning to realise the smallness of his control. The more complex the organisation becomes the greater becomes the likelihood of apathy on the part of the members, of inefficiency on the part of the salaried officials, and the greater the tendency for overhead charges to diminish the surplus available for distribution. If set-backs are encountered and the surplus disappears, even for one year, the discontented members, accustomed to a high return, begin to criticise an already harassed directorate, which is forced, as a consequence, to play for safety, and progress is stayed. While it is true that the system can be modified this could be achieved only by the sacrifice of certain of its principles.

Moreover, before the movement can be extended to embrace the entire economic system, it must attract people of all incomes and grades of society. At present its members are chiefly persons having low or medium incomes. It is still principally a "working-class movement," and this is the class for which it caters. The difficulty lies in the fact that it is necessary to provide for the needs of the wealthier man if his custom is to be secured.

Further difficulty arises in connection with the relationship between the society and its employees. While trade unionism is recognised and works' committees have been adopted in some cases, as a general rule the workpeople have no share in the management, and are not eligible for election to the committees of management. It has been suggested, however, that the difficulty of the conflicting interests which would arise if the employee were permitted to enjoy full rights could be evaded by the formation of joint control boards on the system of Whitley Councils.

Finally, the movement has still to develop the entrepreneurial functions. Its criterion of efficiency in production is, at present, the cost of production of the competing capitalist, and if the movement is to supplant capitalism, it must find some means of testing its efficiency without such a guide. In this connection it is argued that the very nature of the business makes it less dependent than others on a high standard of managerial ability, for its market is more or less guaranteed by the fact that if the members do not purchase from the society they receive no dividends. But this factor, in itself,

is a source of weakness, since a guaranteed market leads to slackness in organisation.

It has been stated that the co-operative movement appeals mainly to the working classes—witness its phenomenal growth in the industrial centres of the north. This reveals another potential weakness, since the soundness of each society is dependent upon the financial resources of the working classes who constitute its membership, and those resources are, of course, mainly dependent on the prosperity of local industry. This weakness is aggravated by the fact that usually a large proportion of the capital is withdrawable, with the result that withdrawals are heavy when local industry languishes.

Other criticisms are: (1) that the committees are frequently incompetent and influenced by considerations other than efficient service, *e.g.*, the favouring of friends and relatives; election to the committee is not based on business capacity, but on popularity; (2) difficulty is experienced in securing efficient officers, since the committees are loth to pay high salaries; (3) employees are rarely dismissed except for dishonesty, and, as a consequence, they are inclined to slack; (4) there is little direct incentive to cut down expenses.

Despite these criticisms it must be admitted that the movement has enjoyed remarkable prosperity, even during periods of depression in industry as a whole.

Major criticisms of opponents of the movement are that the exemption of the profits of Co-operative Societies from income tax gives the societies an unfair advantage over competing traders; that a proportion of the profits are allocated for purposes of political propaganda, with which many of the members may not be in sympathy, and that part of the profits which they are alleged to make unfairly are being used to further the plans of the societies to establish retail shops outside their districts with a view to increasing their retail business, not necessarily with their own members, but with the general public, so bringing them in direct competition with retailing and multiple shops, concerns which obtain no income tax relief.

The agitation amongst private traders for the levying of income tax on the Co-operative Societies became so powerful in 1932 that a special commission was set up to inquire into the question, and, as a result of the findings, the Budget of the following year imposed income tax on the profits of the societies, though in calculating such profits they are allowed to deduct the sums paid out by way of dividend.

Limitations of the Co-operative Movement.

Close enquiry into the essential characteristics of the movement does not justify the view that it will supplant capitalism. The sphere in which consumers' co-operation is likely to be successful, although wide, has definite limits.

There are three main types of industrial enterprise in which the co-operative principle could not be successfully applied. Briefly, these are :—

(1) Those in which there is a large element of speculation. If co-operative enterprise were extended to speculative undertakings, serious problems would arise by reason of the dissociation of control from the ownership of capital. Capital for risky businesses is not likely to be forthcoming in sufficient quantities if its owners are expected to be content with only a fixed rate of interest and to have little voice in the management. They will require a return commensurate with the risk of loss, and rights similar to those of shareholders in ordinary business concerns.

(2) Those involving the production of finer and more individual commodities in which high qualities of skill and adaptation are called for. One of the reasons why the co-operative movement has not achieved overwhelming success, even among the working-classes, is that there is a tendency to economise by restricting the variety and novelty of its products. Consumers' co-operation is best adapted for the production of standard household goods for which demand is steady.

(3) Those industries which demand highly centralised production but whose customers are scattered over wide areas. Where such conditions obtain and the demand is not regular, as, for example, in the cotton and engineering industries, voluntary associations of consumers do not seem suitable as units for industrial control.

A recent development in the sphere of consumers' co-operation has been the internationalisation of the movement. International congresses are arranged from time to time, and, as a result, mutual help (not only in the way of advice but also in the form of business) is rendered by the constituent members. Whilst this new growth does not by any means imply that the limitations to the extension of the movement have been overridden it does at least show that expansion is still proceeding—a fact which is well borne out by recent statistics relating to the growth of the movement.

Agricultural Co-operation.

A more hopeful field for the development of co-operation lies in agricultural industries, and in many countries, particularly Denmark and the Irish Free State, these societies have exploited the farming industry and brought to it a degree of prosperity which would have been impossible in other circumstances. In

France and the United States, too, agricultural co-operation has reached a high stage of development, higher indeed than in Great Britain, though British farmers have gained much benefit from the movement and have obtained expensive machinery necessary for the cultivation of land and for the making of dairy produce, which otherwise they could not afford to purchase.

Specialised societies are engaged in the marketing of wool, meat, dairy produce, flour, vegetables and poultry, while several large organisations exist for the purpose of enabling the farmers to purchase feeding stuffs, fertilisers, seeds and other requirements on economical terms.

But there is ample room for development, especially in the direction of national organisation. Indeed, the need for concerted action in the marketing of live stock, meat, eggs, fruit and green vegetables has become so obvious that the government has considered it desirable to set up government marketing schemes in several branches of the industry.

QUESTIONS BEARING ON CHAPTER 32

1. Analyse the present position of the co-operative movement in the wholesale and retail trade of this country. Discuss the extent to which its ideals enable it to render service superior to that of other types of wholesale and retail trade organisation. (*R.S.A., Stage III.*)

2. Examine the effects on retail trade generally of the growth of consumers' co-operative societies. (*R.S.A., Stage III.*)

3. It is said that consumers' co-operation has been far more successful in this country than producers' co-operation. Can you offer any explanation of this ?

4. What motives lie behind the rise and growth of consumers' co-operation ?

5. Discuss the limitations of the co-operative movement and account for the fact that its activities are confined mainly to the supply of necessaries to the lower classes of the population.

6. In what ways do agricultural co-operative societies help the farmers of this country ?

7. Trace the development of agricultural co-operation in this country.

CHAPTER 33

DESPATCH OF GOODS

One of the most important departments in any trading concern is the Despatch Department, for it is here that a business makes final contact with its customers. Hence efficiency in this department implies not only speed and economy but also consideration for the customer's convenience. Clearly, the latter is of prime importance, for a contract which in other respects is satisfactorily completed may react very detrimentally on the selling firm's reputation if the goods are not sent in accordance with the customer's wishes and in a manner convenient to him.

Methods of Despatching Goods.

The head of the Despatch Department (known sometimes as the Traffic Manager), must be well versed in the various methods of transporting goods, and should also be conversant with the relative merits of alternative routes. Transport costs are ultimately paid for by the consumer, and any increase in transport charges, by increasing the price to the consumer, will most probably reduce the demand, and therefore adversely affect profits. On the other hand, by keeping transport costs as low as possible the trader tends to increase both his sales and his income.

From the standpoint of the despatch of goods to their market, the essential points to which attention must be paid are speed and cheapness. Speed is vitally important, for "time is money," and the sooner the goods are on the market, the more quickly can they be sold, thereby reducing the period during which capital is locked up. Speed is, of course, particularly important in the case of perishable goods. The trader should avoid, as far as possible, those routes which necessitate the "breaking of bulk," *i.e.*, the transfer of goods *en route* from one form of transport to another, for this greatly reduces the speed and involves additional cost. The price paid for speed, however, is sometimes disproportionately high. Carriage by rail, for example, although much more rapid than canal or sea transport, is much dearer in pounds, shillings and pence. In some cases the higher freight paid for speed may be profitable in the long run, but with goods of large bulk in proportion to value—coal, bricks, timber, etc.—the slower means of transit is often used. A trader must therefore decide

whether it will be more advantageous to send his goods by the slower and cheaper route or by the quicker and dearer route. His decision will depend largely on the type of goods, the length of the journey, and the requirements of his customers.

Inland Methods of Despatch.

In cases where the business has a van delivery service of its own, there will be a separate traffic or delivery section of the Despatch Department. Goods not despatched by the firm's own delivery service can be sent to inland destinations by forwarding agents or carriers; by post (see Chapter 24) or messenger for small parcels only; by canal (see Chapter 23); by coasting steamer or by rail—the last-mentioned being the method most commonly employed. In some countries delivery by air also is available, but this is the most expensive method. The consignment of goods abroad is described fully in Chapter 34.

Forwarding Agencies or Carriers.

These are of several classes:—

Local Carriers, which are usually small concerns, carrying parcels to districts not served by railway, and operating in a restricted area, such as between certain villages or between certain towns and villages. As a rule their charges are low, and payment must be made by the sender. The parcels are conveyed direct to the addressee without the necessity of first conveying them to a central depôt to be sorted.

In recent years local carriers have practically disappeared as a result of the competition of local 'bus services, which enable passengers to travel very cheaply with their parcels or which convey parcels at low rates over the routes that they serve. In many cases, of course, local carriers have themselves established and developed the local 'bus services.

Special Carriers, who confine their operations to the carriage of special articles, such as fish or furniture. Such carriers usually work by contract and submit an estimate for each particular consignment or job.

Licensed Carriers, also referred to as *Bonded Carriers*, convey goods between docks and bonded warehouses (see Chapter 22). They do business usually by contract, as in the case of special carriers.

Large-Scale Forwarding Agencies undertake to convey goods either by road or by road and rail. Examples of this class are Carter Paterson, Pickford and Sutton, any of which will undertake to forward goods of all kinds, from a single small parcel to consignments consisting of numerous packages. The forwarding agents are in a position to make special arrangements with the railway companies, for by collecting numerous small packages from different traders they can make up large consignments for which they obtain special rates.

The organisation of such concerns varies considerably. In some cases they undertake both collection and delivery; in other cases they require the goods to be sent to their depôt by the consignor. Traders whose business entails the despatch of numerous parcels, such as those in the boot trade, frequently have contracts with forwarding agents to collect and deliver all parcels, thereby saving themselves much time, trouble and expense. In such cases delivery sheets or books will be kept by the consignor to record particulars of all packages delivered to the carrier, and the latter will usually be required to sign for each parcel received for despatch and to give a receipt. Likewise, the addressee is required by the carrier to sign the delivery sheet on receipt of the package.

In most cases, parcels can be sent either carriage paid, *i.e.*, paid by the consignor, or carriage forward, *i.e.*, to be paid by the addressee. Where a large number of parcels are continually being despatched by one trader, the forwarding agent usually allows him to open an account, and to pay the charges at agreed intervals.

Common Carriers.

A Common Carrier is a person who undertakes the carriage for a money payment of the goods of all persons who choose to employ him. All persons who convey goods from town to town or from country to country in carriages, barges or ships are therefore common carriers, and are under the obligation to accept goods for carriage provided they do not reserve the right to refuse any consignment. Persons who ply for hire in a town and do not travel from one district to another, however, are not common carriers. Thus railway companies (for goods traffic), forwarding agents, and, usually, local carriers are common carriers, but special carriers and licensed carriers are not.

The duties of a common carrier are—

(1) To receive and carry goods of the type he professes to carry, for any person who offers them for that purpose and is willing to pay the usual and proper charges, provided always: (*a*) that the goods are not of such a nature as to expose the carrier to extraordinary risks; (*b*) that the destination of the goods lies within the limits of his ordinary route; and (*c*) that he has room for the goods. If a common carrier refuses to accept goods he is liable to be sued for damages. He has the right, however, to demand payment in advance.

(2) To carry by the ordinary or a reasonable route, though not necessarily the shortest, unless special terms to the contrary are made.

(3) To deliver the goods without unreasonable delay.

(4) To obey any orders of the consignor as to stoppage *in transitu* (see page 264).

The liability of a common carrier at common law is that of an insurer, *i.e.*, he is liable for any loss or damage caused by fire, theft, pilferage, or other causes whilst the goods are in his possession. Exceptions to this rule are loss or damage caused by (1) act of God, (2) acts of the King's enemies, (3) inherent vice in the goods carried, (4) negligence of the person whose goods are carried. Other limitations are imposed by statute. Thus, when a carrier is required to carry certain articles of the value of over £10 (£25 in the case of railway companies), the carrier must be informed of the special nature of the goods, and is entitled to charge an extra sum for the additional risk. Railway companies are forbidden to set limits to their liability as carriers of goods, unless a special contract is signed by the consignor of the goods or his agent, and the terms of the contract are just and reasonable.

Goods Delivered Damaged.

Whatever the method of carriage, particulars of the parcels should be entered on a Delivery Sheet or in a Delivery Book before they are handed to the messenger or carrier, and, on receipt, the addressee or his agent should be required to sign an acknowledgment in a column provided for the purpose. As an *unqualified* signature on a delivery sheet implies that the goods have been received in good order and condition and that they are of the type ordered, the addressee should not sign until he has examined all goods received for signs of damage and has ascertained that the particulars on the delivery sheet correspond with the order sent to the supplier and with the goods received. If the goods appear to be damaged in any way, the addressee should give only a qualified signature by adding words to the effect that the goods were received in a damaged condition. If goods are delivered damaged by the seller's own vanman or messenger, acceptance should be refused and the goods returned. Where parcels are received by a person who is not authorised to open them and to examine the contents, he should not sign for them without adding words to show that the goods are unexamined. Claims in connection with damaged goods should be made as soon as possible after receipt of the parcel.

THE CARRIAGE OF GOODS BY RAIL

Goods despatched by rail may be conveyed either by goods train or by passenger train, but the latter mode of transit can be used only for certain types of goods.

For the purpose of fixing the charges for their carriage by merchandise train, goods are classified into distinct groups care-

fully prescribed by Act of Parliament, and the rate to be charged in any particular case can be ascertained by the consignor himself by reference to a published scale of standard charges.

The Railways Act, 1921.

The present system of classification was embodied in Part III. of the *Railways Act*, 1921 (see Chapter 23). The Act made provision for the continuance, in certain cases, of exceptional rates previously in force, and also for a periodical review of the rates and charges.

The present classification (given on page 484) came into operation on the 1st January, 1928, and provides for 21 distinct classes of goods traffic. The charges increase progressively from Class 1 up to Class 21, and higher rates are charged for small consignments of goods in the first eleven classes.

Exceptional Articles.

Certain conditions are imposed in connection with the carriage of articles of an exceptional character, and the following are carried only by special arrangement :—

(1) Articles of unusual length, bulk, or weight, or of an exceptional bulk in proportion to weight.
(2) Articles requiring a special truck, or more than one truck, in a special train.
(3) Articles not packed, or insecurely packed, or which are otherwise peculiarly liable to damage or loss.
(4) Merchandise which the company has either to receive or to deliver at a siding in less than truck loads or in a separate truck.
(5) Bullion, specie, gold and silver plate, precious stones, statuary.
(6) Articles such as furniture vans and turntable engines, for which special loading and other appliances are required.

Tapering.

The charge made for conveying merchandise is not directly proportional to the length of the journey. Instead, the rate per mile decreases as the length of the journey increases : in other words, the rate is said to "taper." Merchandise carried for, say, 150 miles will be charged at the standard rate for the first twenty miles, then at a lower rate for the next thirty miles, at a still lower rate for the next fifty miles, and at an even lower rate for the last fifty miles. This system applies even when the goods have to be transferred *en route* from the system of one railway company to that of another.

Classification of Goods by Merchandise Train.

Class.	Weight.	Wagons.	Examples of Goods Carried.
1*	6 tons	Owner's	Road slag; iron pyrites; iron ore; limestone in bulk.
2	6 ,,	,,	Bituminous shale; sand in bulk; rock phosphate.
3*	6 ,,	,,	Tarred road material; lime in bulk.
4*	6 ,,	,,	Common salt; creosote (in tank wagons).
5*	6 ,,	Company's	Garden soil; roofing slates; pig iron; lead ore; marl.
6	6 ,,	,,	Glass slag; peat: iron moulds; mortar; cement stone.
7*	4 ,,	,	Stucco; soot; sulphate of potash; copper ore.
8*	4 ,,	,,	Beetroot; vegetable tar; wooden rails; oil cake.
9*	4 ,,	,,	Silica; silver sand; pipe clay; potter's glaze; powdered glass.
10	2 ,,	,,	Pea sticks; sawdust; steel ropes; clay retorts; nickel.
11*	2 ,,	,,	Cardboard; rosin; putty; lead piping; sheet lead.
12*	Any quantity	,,	Motor tractors; size; jute; insulators; hemp.
13	,,	,,	Bananas in bunches; sealing wax; crude turpentine.
14*	,,	,,	Gooseberries; lead tape; dripping in casks.
15*	,,	,,	Tapioca; metal polish; cabbage plants; mustard.
16	,,	,,	Bananas in drums; raw wool; tin foil; shoddy.
17*	,,	,,	Music; picture post cards; offals; brass forgings and castings.
18	,,	,,	Wine in cases; wheelbarrows; tents; tea; shellac.
19	,,	,,	Whalebone; venison; firearms; tobacco; footballs.
20	,,	,,	Telescopes; surgical instruments; sponges; spices; pianos.
21	,,	,,	Statuary; platinum.

* These classes have sub-classes.

Quotation of Rates.

The rates quoted by railway companies for the carriage of goods are composed of several elements. Normally the charge for carriage from one station to another on the same line (a *local rate*) comprises three elements :—

(*a*) The maximum haulage rate per ton mile.
(*b*) Station terminal charges at each end.
(*c*) Charges for covering and uncovering the goods.

Similarly a *Through Rate, i.e.*, one for goods which have to travel over the lines of more than one company, comprises the same three elements, while the haulage rate includes the charges of both companies.

Since the last two charges are fixed, and do not vary accord-

ing to the length of the journey, it is obvious that rates for short distances must be relatively heavier than those for long distances. For this reason it often pays traders to make short deliveries by road and to use the railway only for long distance traffic.

Consignments.

Parcels or packages handed to railway companies for carriage are known as "consignments." Each consignment is charged for separately, and, where goods are collected by the railway company from two or more places, each package is charged as a separate consignment. Where separate packages of the same class, and chargeable at the same rate, are sent by one trader to several consignees at a particular station, they are charged as one consignment provided (1) they are consigned to be charged together, (2) they are all handed to the company at the same time, and (3) the charges are paid by the sender or by one consignee.

"Split delivery" charges are made when a trader sends a consignment which requires to be divided into different portions at the delivery station, the additional charge for the service being 1*d.* per portion. Further "split delivery" charges are made when goods sent by more than one trader, charged as one consignment (freight being paid by one trader), require to be delivered in separate portions not exceeding 3 cwt., the additional charge (over and above the railway cartage charges and the 1*d.* per portion charge mentioned above) being 3*d.* per cwt. (minimum 4*d.*) in London, and 2*d.* per cwt. (minimum 3*d.*) elsewhere.

Cartage.

The standard rates are for carriage from station to station only, *i.e.*, they do not include collection at the consignor's end nor delivery to the consignee. Traffic accepted on this basis is known as "S. to S." (station to station) or "N.C." (not carted) traffic, and, if the service of cartage is required, additional payment must be made. Thus, if cartage is required at one end only an additional 2*s.* 6*d.* per ton is charged, in which case the traffic is known as "C. and S." (collection and station) traffic where the goods are to be collected and not delivered, and as "S. and D." (station and delivery) traffic where they are to be delivered and not collected. If both collection *and* delivery by the railway company are required, an additional sum of 5*s.* per ton is charged, and the traffic is known as "C. and D." Collection and delivery services are available only within the company's free area and for those goods which the company undertakes to deliver. If delivery is required beyond this area the company may charge "out of boundary" cartage.

An Advice Note containing particulars of the goods, charges payable and other information is sent to the consignee by the railway company in respect of S. to S. and C. and S.

traffic, and also in respect of S. and D. and C. and D. traffic if the place of collection or delivery is outside the free area. If within two clear days of receipt of the advice note the consignee does not take delivery of the goods, the company may unload them and charge the consignee for doing so, although in practice this course is not usually resorted to until four or five days have elapsed. Wagon *demurrage* is charged as from the time the consignee ought to have unloaded the wagons, and he is further liable for *yardage* or warehouse rent in respect of the storage of the articles concerned.

In the event of goods which have been charged at C. and D. rates being conveyed to or from the station by the consignor or consignee, an allowance, known as "*Cartage Rebate*," is made by the company. This occurs most frequently in the case of highly perishable goods, such as fish or fruit, when the trader is able to obtain quicker despatch or delivery by using his own conveyances and dispensing with the railway's carriage service. In this case, and also when goods are carried N.C., the trader must sign the delivery sheet at the station.

At many stations the collection and delivery of goods is performed by a carting agent employed by the company, who is usually paid so much per ton on the goods carried. In some cases, however, particularly when a haulage contractor is called in for a short period to deal with abnormal traffic, payment is made at an agreed figure per day.

Delivery is made only at the place indicated or, if none is mentioned, at the consignee's usual place of business. The consignee must sign the carter's delivery sheet, though, if several consignments are delivered to him at once, he may bracket them together and give one signature only, provided he inserts the number of articles or packages received. It is not permissible for a consignee to unpack consignments before taking delivery. If he is suspicious that a package has been tampered with, he should add the words "not examined" under his signature.

Exceptional Rates and Agreed Charges.

Traders who are in the habit of sending large quantities of goods for conveyance by rail are able in some cases to induce the railway companies to quote special rates, *i.e.*, rates below the standard. Before granting such a concession the company requires to be advised of (1) Details of the goods concerned; (2) The points between which the goods are to be conveyed; (3) The date of conveyance; (4) In what quantities the goods will be available.

When a company decides to quote an *exceptional* rate, it gives the particulars to the applicant on a printed form provided for the purpose. Unless approved by the Railway Rates Tribunal, the exceptional rate quoted must not be more than 40 per cent. below the standard charge, and must be made avail-

able to all other traders consigning the same type of traffic in similar quantities. Where such exceptional rates are granted, an appeal can be lodged against them by any person or concern whose interests may be adversely affected, as, for example, a canal company (*Railways Act*, 1921).

The *Road and Rail Traffic Act*, 1933, introduced a further modification in respect of the standard rates. A railway company may now agree a special charge (known as an *agreed charge*) with any trader for the carriage of his goods (see page 337). The charge must be approved by the Tribunal, which must take into account any objections lodged by interested parties. Once the charge has been approved, it cannot be challenged until another twelve months have expired. These "agreed charges" will be used by the companies chiefly where their standard rates are undercut by road carriers. Unlike an exceptional rate, an "agreed charge" is not available to any trader other than he with whom the company makes the agreement.

Small and Mixed Consignments.

Goods consigned for transit in England and Wales, and not exceeding 3 cwt., are charged for on a special scale called the "Small Parcels Scale," with a minimum charge as for 28 lb.

A "mixed" consignment, as its name implies, is one consisting of goods chargeable in different classes of the classification. The following regulations apply to small and mixed consignments :—

(1) When a consignment of two or more packages (not exceeding 3 cwt.) includes merchandise in two or more classes of the classification, the goods in each class are charged as separate consignments, unless the charge on the total weight at the highest rate be less; but if the consignment consists of separate packages of merchandise in the same class, and is consigned from one consignor to one consignee, the whole is charged as one consignment.

(2) A package containing merchandise in different classes of the classification is charged at the rate applicable to the highest of such classes. Thus, to save money, it is always advisable not to include goods of different classes in one parcel.

(3) Parcels from different consignors, or to different consignees, are charged separately.

(4) If the consignor refuses to declare to the railway company the nature of the goods, either before or at the time they are delivered, the consignment may be charged as if it were wholly composed of articles comprised in Class 21 (the highest class)

Consignment Notes.

When a trader hands goods over to a railway company for carriage he must fill in and deliver with the goods a *Consignment Note,* which constitutes a declaration of the goods to be carried, and, when it has been signed by the consignor and the company, constitutes a contract between them for the carriage of the merchandise. The conditions on which the railway company accepts the goods for carriage are printed on the back of the consignment note, whilst on the front of the note the following particulars must be given :—

(1) Number, quantity, description and gross weight of the goods.
(2) The name and address of the consignor.
(3) The name and address of the consignee (where there are two or more stations of the same or similar name, the actual station and county must be plainly stated).
(4) By whom the carriage is to be paid.

In most cases the printed forms of consignment note supplied by the railway company are used, and these are obtainable on application bound in book form and in a variety of sizes. In some cases, however, the trader uses his own printed form, the counterfoils of which comprise the delivery book in which he takes the carter's signature acknowledging receipt of the goods. Railway companies refuse to accept consignment notes if any of the printed conditions have been altered or erased, or if any additional conditions have been endorsed on the note, or if a note has been added referring the railway company to a third party for payment of the carriage.

Forms of Consignment Notes.

Consignment notes are of several kinds : (1) Company's Risk or Ordinary ; (2) Owner's Risk ; (3) Coal and Coke ; (4) Mineral ; (5) Live Stock ; (6) Explosives and other dangerous goods.

Merchandise included under (3)–(6) above is carried under special conditions. The conditions applying to (1) and (2) are dealt with below.

Company's Risk (C.R.) and Owner's Risk (O.R.).

When goods are carried at " Company's Risk " (C.R.) the company is responsible to the consignor as a common carrier for any loss or damage to the goods whilst in transit, with the exception of loss or damage incurred owing to act of God, inherent vice, negligence of the consignor, or acts of the King's enemies. But where a trader sends goods at " Owner's Risk " (O.R.) he must bear all losses himself, other than any loss caused by proven negligence on the part of the railway company. Naturally, the cost of carriage is higher for C.R. than for O.R. traffic.

A trader has the option of sending his goods on O.R. conditions, provided an O.R. rate is available for that class of goods. Where the trader does not request in writing that the goods shall be conveyed under O.R. conditions, or if no O.R. rate is available, the goods are carried under C.R., *i.e.*, at the ordinary rates.

In all consignments the goods must be so packed as to afford efficient and suitable protection for the class of merchandise concerned. Unless otherwise stated, articles tied together by string or wire are treated by the railway company as inadequately packed.

Warehouse and Wharfage Charges.

Merchandise handed to a railway company for conveyance at some future date is accepted by the company on the understanding that the usual warehouse and wharfage charges will be paid. In such cases the company holds the goods as a warehouseman and not as a common carrier, so that, when the time arrives for the goods to be forwarded to their destination, the consignor must give instructions to the company in a consignment note.

When goods are consigned "To await order," or addressed "Till called for," the merchandise is placed by the railway company in a warehouse, and if the consignee does not clear them within a reasonable time (usually within three days of their arrival) warehouse rent is charged.

Warehousing charges are fixed by scale irrespective of the distance the goods have been carried, and the extent to which they affect the cost of transport therefore varies with mileage. Where the goods have been carried a short distance only, the charges may markedly increase the cost of transport, but where the distance is considerable, the additional charges form a negligible part of the total cost.

Insurance.

In carrying certain classes of goods defined by the *Carriers Act*, 1830, the *Railway and Canal Traffic Act*, 1854, and other statutes, a railway company is in the position of a *special carrier*, and as such the company need only accept the traffic if certain conditions have been observed. In such cases an insurance charge is payable by the consignor before the goods are despatched. The charges vary according to the class of article, and range from 6*d*. to cover values up to £50 on the lowest risks to 150*s*. to cover goods of £500 value, where the risk is greatest. The classes of goods affected by this system are as follows :—

CLASS I.—Stamps ; maps ; furs ; clocks ; timepieces ; plated articles ; gold and silver coins ; manufactured

and unmanufactured gold, silver, and platinum; jewellery; watches; gold and silver plate; hand-made lace; engraving; trinkets; bank-notes; title-deeds; writings; bills of exchange, and orders, notes, or securities for the payment of money.

CLASS II.—Glass (except as named in IV. below); china from manufacturers or factors; precious stones; jewellery not from manufacturers or factors; and all jewellery containing precious stones

CLASS III.—Pictures and paintings.

CLASS IV.—Glass (plate, stained, silvered, or bent); and china other than from manufacturers or factors.

Goods of the above classes up to and including 28 lb. in weight will be insured by a railway company only if sent by passenger train.

The charges, which are contained in a *Book of Scales*, apply irrespective of distance and are additional to the ordinary C.R. rate charged for carriage. The charges cover the risk during collection and delivery where those services are performed by the company, but they do not cover the risk during any intervening period when the company holds the goods as warehouseman. If the goods exceed £500 in value, twenty-four hours' notice in writing must be given to the goods agent at the forwarding station before the goods are delivered for forwarding. This enables the company to arrange for special precautions during transit. When a consignment tendered for insurance consists of more than one package, the value of each package must be declared separately, but the insurance charge is based on the aggregate value of the whole consignment. Railway companies usually reserve the right to inspect the goods on delivery and to send a representative to be present when the goods are unpacked by the consignee.

Stoppage in Transitu.

In Chapter 17 it was explained how the seller of goods could stop goods which were in transit to a buyer who had become insolvent. Where the goods are in transit by rail, the consignor may exercise the right of "stoppage *in transitu*" by requesting the railway company to withhold delivery of the goods to the consignee. In such cases, the company requests the consignor to send particulars of the consignment and the reasons for the action, and also enquires whether or not he is willing to sign a form of indemnity freeing the company from any liability which may result from such action. The company can, of course, comply with the request only if the goods are still in transit. If they have already reached the receiving station and the consignee has been advised of their arrival, the power of the sender to exercise the right of stoppage *in transitu*

has ceased, as the goods are then held by the railway company on behalf of the consignee, *i.e.*, as warehouseman and not as carrier

Damage and Claims.

Claims may be made in respect of damage to goods in transit, arising out of breakages, damage by water and fire. Claims may also be made in the case of theft or pilferage and delay in transit.

Even if breakage is due to faulty packing on the part of the consignor, the company is liable if it should have been apparent on delivery to the company that the goods were not properly packed fit for travel, for in such a case the railway should have refused to accept the goods for conveyance. Where, however, the packages were apparently in good condition on receipt by the railway company, the onus of proving that the damage is due to faulty packing rests with the company.

When goods are damaged or destroyed by fire whilst in course of transit, the company is liable as a common carrier. Furthermore, if the railway company collects goods for conveyance, and before they are forwarded they are lost or damaged by fire, then the company is liable, since its contract runs from the time it takes the goods into its care. The company is liable also for loss or damage in respect of goods charged at C. & D. rates should they be lost or damaged whilst awaiting delivery at the receiving station, as in this case the contract of carriage has not been completed. Where, however, the goods are lost or damaged whilst awaiting collection *by the consignee*, and he fails to collect them within a reasonable time of receiving an advice note (stating that the goods are at the station at his sole risk and expense), the company is not liable and the consignee must bear the loss, on the ground that the contract of carriage terminated on the expiration of that reasonable time.

Claims for loss or damage must be made by the consignee against the railway company, who will furnish him with a Claim Form to be filled in and returned to the company If the damaged goods are in the hands of the consignee, the company's representatives usually attend to inspect them. Where a consignee refuses to accept delivery of damaged goods, the company may sell them as salvage to the best advantage, and, in the event of the company being liable, the proceeds will be used to reduce the loss. If, after investigation, it is found that the company is not liable, the proceeds of the sale, less the freight charges and other expenses incurred, are paid over by the company to the claimant. Strictly speaking, consignees have no right to refuse delivery of damaged goods or goods which it is alleged have been delayed in transit. Such goods should be accepted with a qualified signature and the claim thereon made immediately afterwards. If this procedure is not followed

and the goods have to be returned to the station but are taken out again for delivery, a charge for cartage back to the station, and from the station to the consignee's address, is usually made by the company. A similar charge is made in the case of goods which have to be taken out a second time because there was no one to receive them when they were first delivered.

Passenger Traffic.

It has already been mentioned that goods are sometimes sent by passenger instead of goods train ; this is usually for the sake of greater speed. Goods sent by passenger train pay freight on quite a different set of rates from those applicable to goods traffic. The following is a classified list of goods which may be carried by passenger trains :—

DIVISION 1.—*Section A.*—Milk in cans, churns, or butts.
Section B.—Milk in bottles in cases.
DIVISION 2.—*Section* 1.—Fish (common), ice, etc.
Section 2.—Fruit and vegetables (not hot-house).
Section 3.—Mushrooms, melons, cucumbers, asparagus, tomatoes.
Section 4.—Meat, bacon, ham, cut flowers, fish (prime).
GROUP 1.—General parcels.
,, 2.—Merchandise of a frail nature or bulky in proportion to weight.
,, 3.—Newspapers.
,, 4.—Empties.
,, 5.—Live stock (in special vehicles, etc.).
,, 6.—Bicycles, etc., conveyed in trucks specially provided.
,, 7.—Loaded van traffic.
,, 8.—Carriages, motor-cars, etc.
,, 9.—Caravans, etc.
,, 10.—Corpses, etc.
,, 11.—Railway vehicles running on own wheels.
,, 12.—Theatrical, etc., companies' luggage, scenery, etc.
,, 13.—Single post letters.

In all cases a standard rate is applicable to each class, increasing progressively from Section A of Division 1 to Group 13. Unless otherwise agreed with the railway company, all charges must be prepaid by the sender, and a parcels stamp is affixed to show that the charges have been paid. Charges which arise *en route*, *e.g.*, for feeding live stock, are payable by the consignee on or before delivery. In certain cases, a credit account for charges is opened with the company, and in such cases a special label is affixed.

Newspaper Traffic.

Parcels of newspapers and other publications form a very considerable portion of the traffic conveyed by passenger train. A declaration of the contents must be given on the address label, and the parcels must be open at both ends, as the company usually reserves the right to open and examine the packages.

In the majority of cases newspapers are carried under contract with the publishers at a reduced rate at owner's risk. If they are carried company's risk, the standard scale of charges for Group 3 is applicable, and this scale is based on weight and distance.

Delivery to Railway.

The general rules and arrangements with regard to the carriage of goods by rail having now been discussed, it is possible to outline briefly the procedure on the despatch of goods to the railway. Unless the customer requests that the goods be sent by a particular route, the company itself must decide which route to utilise. This having been done, a consignment note must be filled in, care being exercised that the appropriate note is used, *i.e.*, C.R., O.R., or a special note applicable to the particular class of goods. In the case of goods despatched by passenger train or by a carrying agency, the consignment note is not used, its place being taken by a *Parcels List.*

The goods are next loaded on to the conveyance of the railway company or carrying agency, or on the trader's own vehicles if being sent by rail as S. to S. or S. & D. traffic, each package being checked as it is loaded. Carbon copies should be made of the particulars entered on the consignment notes or parcels list, and the copies may then be filed for reference in case of dispute. When the goods have been loaded, the vanman will sign the note or list, except, of course, where goods are delivered by the trader at the receiving station, in which case the note or list will be signed by the receiving clerk.

When parcels are sent by passenger train, the carriage must in all cases be paid at the time of despatch, and it is usually convenient for this to be paid from petty cash, the receipt therefor being handed to the petty cashier as his voucher. Similarly, when goods are sent by a carrying agency the cost of carriage can usually be paid through petty cash. If the carriage is to be charged to the customer, the petty cashier will indicate this in his petty-cash book, and the amount will ultimately be transferred to the debit of the customer's account in the ledger. In every case where cost of carriage is paid by the consignor, a receipt must be obtained and passed to the cashier or accountant.

QUESTIONS BEARING ON CHAPTER 33

1. On 1st June 1925, Messrs. Robinson, Jones & Co., of Birmingham, despatched goods per the L.M.S. Railway Co., invoiced at £1046 15*s.* 2*d.* to Messrs. Brown-Smith & Co., of Manchester.

Describe the several documents handled by the representatives of Robinson, Jones & Co., in connection with this transaction, assuming that

Messrs. Brown-Smith paid cash against receipt of goods and were allowed a trade discount of 15 per cent. with a cash discount of 3¾ per cent. (*R.S.A., Stage I.*)

2. What is meant by a "mixed" consignment in traffic by rail? What steps would you take in order to secure the lowest possible rate for such a consignment? (*R.S.A., Stage III.*)

3. Describe briefly the system of charges adopted by British railways in respect of the wharfage and warehousing of goods in transit.

Can it be maintained that it adds considerably to the costs of transport? (*R.S.A., Stage III.*)

4. What is meant by a special rate in British railway traffic? What steps have to be taken in applying for a special rate? (*R.S.A., Stage III.*)

5. What is a Common Carrier and what are his obligations?

A Railway Company carries goods at owner's risk, or at carrier's risk. Wherein lies the difference between these two risks? (*C.A., Inter.*)

6. Explain the difference when goods are carried by a railway company at "Company's Risk" and when they are carried at "Owner's Risk." (*London Chamber of Commerce, Higher Certif.*)

7. A parcel of goods is received by a trader in a very damaged condition.

(*a*) Draft a letter to the railway company claiming for the damage.

(*b*) Explain how the trader's request for compensation is affected if the goods were carried at "Owner's Risk." (*C.A., Inter.*)

8. What considerations ought to determine the mode of carriage to be adopted in the following cases:—

(*a*) Distribution of goods from wholesale to retailer's shops;

(*b*) Distribution by retailer to consumer?

(*R.S.A., Stage II.*)

9. What do you understand by the "tapering" of railway rates? What are "exceptional rates" and what considerations now govern their application? (*R.S.A., Stage III.*)

10. What are the purposes for which a consignment note is used and what details should it contain? (*R.S.A., Stage I.*)

11. Outline briefly the routine in a warehouse for despatching and delivering goods to retailers, and describe the principal documents employed in the process. (*R.S.A., Stage I.*)

12. Explain the difference between "Goods on Consignment" and "Goods on Sale or Return." (*C.A., Inter.*)

CHAPTER 34

EXPORTING

THE export of goods from this country is undertaken by a number of different groups including Manufacturers, Export Merchants, Export Commission Agents, Export Agents, Export Associations, Importers' Buying Offices and Packing and Forwarding Agents.

MANUFACTURERS obtain orders from customers abroad and despatch goods direct or through a forwarding agent.

EXPORT MERCHANTS (Shipping Merchants, or Merchant Shippers) supply their customers abroad with goods which they themselves purchase from various manufacturers. They may ship the goods themselves, or instruct agents to do so on their behalf. These firms are few in number and are usually of good standing.

EXPORT COMMISSION AGENTS contract to buy goods in this country on behalf of clients abroad and to despatch them in accordance with instructions. They receive a commission for their services, and either attend to the shipping themselves or put it in the hands of forwarding agents. They are usually buying agents, and normally do not sell goods on their own behalf, although in some cases they act as selling agents for manufacturers. Most of the exporting from this country passes through the hands of this class of intermediary.

EXPORT AGENTS are individuals or firms who represent one manufacturer or several non-competing manufacturers. Occasionally they act as exporters, but usually they receive their orders from export merchants or from export commission agents.

EXPORT ASSOCIATIONS are associations of allied manufacturers who combine for the purpose of securing export trade.

IMPORTERS' BUYING OFFICES are offices in the country of export which are maintained by foreign importers for the purpose of buying goods on the spot in accordance with instructions sent to them by their principals.

PACKING AND FORWARDING AGENTS specialise in packing goods, and, from experience, know the best way to pack any particular type of goods and the most suitable form of packing to use for the country to which the goods are being sent. In addition, these firms carry out on the exporters' behalf all the formalities connected with the shipping of goods. Of course,

in large firms where a considerable amount of packing for export has to be done, special packing departments are set up to discharge the functions which smaller firms would delegate to the packing agents. Railway and steamship companies occasionally act as packing agents.

Getting the Order.

MANUFACTURERS get their orders from some or all of the following sources:—

(a) Their own travellers visiting possible customers abroad.
(b) Advertising letters and leaflets which they send by post.
(c) Advertisements in Home and Foreign Trade Journals.
(d) Visiting buyers from foreign firms.
(e) Agents or foreign representatives.
(f) Export merchants and commission agents.

EXPORT MERCHANTS get their orders in much the same way as do manufacturers, but they do not always depend on one line or class of goods. Consequently they have a greater chance of getting business by the recommendation of satisfied customers.

EXPORT COMMISSION AGENTS get their "marks" by recommendation, by personal tours in a certain district, or by advertisements in the journals of foreign Chambers of Commerce. Foreign importers have a special mark put on the cases containing their goods, and to "get a mark" is a term often used by commission agents to signify the securing of a new client.

EXPORT AGENTS, PACKING AND FORWARDING AGENTS, in so far as they act as exporters on their own account, secure their orders in the same manner as export merchants or manufacturers.

EXPORT ASSOCIATIONS, being combinations of manufacturers, secure their orders through the intermediary of the members of the association if their agreement is to "pool" orders received. Otherwise they obtain the orders in precisely the same manner as an individual manufacturer.

IMPORTERS' BUYING OFFICES receive from their home offices their instructions to buy and export goods.

Market Research.

An important part of the work of manufacturers, export merchants and others who are engaged in the export trade consists in a study of the market from which it is hoped to receive orders. Some firms trade in all parts of the world; others confine their activities to a special section. For instance, some firms export cotton goods to all parts of the world, while others

specialise in the export of cotton to India or to China. Big firms, however, specialise, and even where a firm covers many *sections* of the trade, a special department is set up to deal exclusively with each section, and it falls to this department to make the necessary investigation of the market in which its goods are being sold.

Personal representatives are sent out into the proposed market to study the distribution of population, habits and religious prejudices of the people, the laws, general commercial conditions, methods of advertising, facilities for transport, banking and credit, development tendencies, the sources, prices, brands, methods of packing and methods of distribution of present supplies. Armed with this information the investigators return home, where available statistics will be consulted and the whole problem considered in the light of the technical problems involved in manufacturing, packing and shipping the commodity. From the results of this research will be developed a *sales plan*, which will later be modified by the results of practical experience.

Investigations of this character bring to light prejudices, customs, special conditions and local regulations which demand that the commodity shall be manufactured, packed, shipped or sold in a manner which may be quite unnecessary or unsuitable for domestic trade.

Direct or Indirect Export.

A manufacturer who is about to enter the export trade must decide whether he will enter the foreign market himself as an exporter, or whether he will have his commodities exported through professional exporters of the types already mentioned.

The main considerations to be taken into account by the manufacturer are whether or not he can command the necessary capital or credit, of which a considerable amount is required to finance shipments to overseas importers; whether the setting up of an export department is really justified; whether the channels of import are available, in the form of merchants or agents in the foreign market; whether it is likely to be profitable to engage in the necessary educative advertising, or whether the manufacturer shall be satisfied at the outset to take a passive part and rely upon orders received from the professional exporters; whether the market is one in which trade is likely to be easily conducted, or whether the laws and customs are such as to make the task possible only to an organisation specialising in trade in that particular area.

An example of the problems to be considered is that of dealing with foreign correspondence in the appropriate foreign language. This matter rarely receives the attention it deserves. It should be taken as a rule that, when correspondence with

a foreign country is being initiated, the first communication should be made in the language of the country, or in some language commercially used in that market. On the other hand, a reply to an enquiry received from abroad should be made in the language of the enquiry. It is well, when corresponding with markets for the first time, to enquire what language may be used in future correspondence. In many Eastern countries, *e.g.*, China, Japan and India, English can be used, but in the majority of cases other languages are necessary. The manufacturer can always secure information from Consulates, Foreign Information Bureaux or Chambers of Commerce as to the language used in any markets, and must then consider the necessity of securing efficient correspondents in those languages. They must be truly competent, otherwise their efforts will not only fail to secure business but will also tend either to antagonise or to amuse the prospective customer.

The chief factor entering into the problem of whether the manufacturer shall be his own exporter or shall employ a professional exporter is that, while the manufacturer is mainly interested in manufacturing, the professional exporter is mainly engaged in exporting. The manufacturer is a specialist in the commodities he manufactures, and to that extent is more suited to, and more interested in, their sale than a professional exporter. On the other hand, the professional exporter is more skilled in the methods of his particular market. He has the organisation, capital and experience necessary to ship and to finance his shipments to the market in which he specialises, and, as a rule, he can do this more easily than the manufacturer ever could.

An important aspect for consideration is the viewpoint of the prospective importer. The active efforts of a manufacturer to secure orders directly will appeal to the importer to some extent. His attention will be drawn to lines he would not otherwise meet, and, if the manufacturer has the requisite organisation, capital and experience, the importer may find it more profitable to make his purchases direct. On the other hand, he is likely in most cases to secure better terms from a professional exporter through whom the whole of his supplies are purchased. He relies on the exporter's experience and skill in buying in that market, his purchases are collected together and shipped collectively at lower rates of freight, his insurance is consolidated, and the terms of payment are usually more liberal.

Joint Adventure.

Frequently, temporary partnerships are formed between merchants in different countries for undertaking one or more export transactions on their joint account. Such associations

are known as *Joint Adventures* or *Joint Ventures*. It may be that one party is in a position to purchase, and another to sell, a given commodity; or one may be able to supply capital for some special undertaking to be managed by the other. Such joint adventures are by no means confined to foreign trade, although they are most common in that sphere.

A typical example of a joint adventure arises when an English exporter acts as buyer and exports goods on joint account to an importer in a new market. The parties mutually agree that the exporter shall receive a buying commission and the importer a selling commission, and that the net proceeds of the venture shall be shared between them in a certain proportion upon completion, and after allowance to each of interest at an agreed rate in respect of any capital outlay made by him.

During the continuance of the venture, the relationship existing between the two parties is exactly the same as in any other partnership, but upon completion of the venture the partnership comes to an end.

Enquiries and Quotations.

An export commission agent is rarely asked to make quotations, since his customer usually relies upon the agent's judgment to secure the goods at the best prices available, but, in the case of direct exports, enquiries and quotations are commonly received and given before an order is secured.

An Enquiry is a request to be informed of the price at which goods will be sold, or services rendered, while a *quotation* is the reply to an enquiry. Both should contain full details of the goods required, their description, catalogue number or grade, sizes, weights or other distinguishing features, the number or quantity, time and method of delivery, method of packing, and, in the case of a quotation, the price and terms of sale. It is especially important in foreign trade, where distances are great, to make certain that all the necessary information is given, and, where a quotation is based upon an enquiry, it should repeat all the details of the enquiry, together with any further details not contained therein, but which form part of the contract of sale.

In the case of the first enquiry, it is usual to make some investigation of the financial position of the client, either by means of a banker's reference (if the bank's name is supplied by the enquirer), by means of a trade reference, *i.e.*, enquiry of some firm or firms who have had business dealings with the person in question, or through enquiry agencies who specialise in acquiring and furnishing information concerning all types of traders (see also Chapter 26).

Enquiries and quotations are frequently made by means of telegrams or cables sent in code. Instructions for the use of

the various public codes are to be found in the publications themselves, but exporters frequently have their own private codes specially compiled for their particular businesses, copies of which they supply to their customers. It is the common practice of both exporters and importers to have printed upon all the documents they use in foreign trade the names of the various public codes they habitually use, together with the cable addresses which they have registered with the postal and cable authorities for telegraphic use.

Before making a quotation, an exporter would have to calculate the prices at which he could carry out the shipment. The cost of the goods would be known to a manufacturer, but a professional exporter would have to make his own enquiries from various manufacturers, and thereafter consider which is likely to give the greatest satisfaction to his customer in quality, price and time of delivery. He must also ascertain the costs of packing, delivery to the seaport, warehousing, fire insurance, marking, inspection (if necessary), shipment, freight, marine insurance and finance.

Which of these expenses it would be necessary to include in the calculation of the export price would depend upon the terms of delivery called for in the enquiry, and the method to be adopted for financing the transaction.

It may be necessary for the exporter to quote the price in his own currency or in that of his customer, according to the terms of the enquiry and the circumstances of each particular case. Where a quotation is to be made in the foreign currency it will be necessary to ascertain at what rate of exchange the exporter will be able to sell his foreign exchange when the transaction has been completed.

Price Quotations.

In addition to the terms used in connection with purchases and sales already dealt with in Chapter 26, a number of special terms are used in the quotation of prices in international trade, and, of these, the following are the most common :—

DELIVERED DOCKS is a quotation occasionally met with in cases where the enquiry relates to goods which are to be exported. The charges of unloading (if any) and delivery to the docks at the port of departure are included, although most of the railways perform these functions free of charge.

F.A.S. (FREE ALONGSIDE SHIP) means that the goods are delivered to the side of the ship, but that any charges for loading on to the ship are extras. Ships usually load packages up to two tons free of charge, but for heavier hauls special derricks have to be brought into operation, and additional charges are made accordingly. These loading charges are considerable in

the case of very heavy goods, *e.g.*, locomotives, when special hauling gear has to be hired. Marine insurance usually begins from the time the goods are put *on* the ship, so that the considerable risk which may be involved in loading may not be covered by the relative policy. F.A.S. delivery may take place from a wharf or from lighters or barges.

F.O.B. (FREE ON BOARD) includes the cost of loading the goods on to the ship. It is the duty of the seller here to secure from the shipping company some form of receipt for the goods, and to hand this to the buyer. Such a quotation usually names the port, *e.g.*, "F.O.B., Glasgow," but if it reads, *e.g.*, "F.O.B., English Port," the buyer has the option of naming the port of delivery.

C. & F. (COST AND FREIGHT) signifies that the *freight* will be paid by the seller and that he will secure the necessary bills of lading. Such a quotation must include the name of the port at which delivery will take place, *e.g.*, "C. & F., Calcutta." In this country, quotations of this description are more frequently found in the import than in the export trade, and usually arise where the importer insures his goods under a floating policy of marine insurance, as is common in the import of raw materials into the United Kingdom.

C.I.F. (COST, INSURANCE AND FREIGHT) includes freight as well as the cost of *insurance* over the risks commonly insured against in the particular trade. Such insurance will not usually include exceptional risks, *e.g.*, theft and pilferage, or war risk. It is the duty of the seller who quotes C.I.F. prices to pay the premium for the insurance and to secure the relative insurance *policy* (a *certificate* of insurance is not usually considered a good delivery). The port to which the charges are paid must be named.

C.I.F.I. (COST, INSURANCE, FREIGHT AND INTEREST) is occasionally met with, and additionally to freight and insurance includes *interest* on the value of the shipment. C.I.F.I. quotations are made, for instance, by an agent acting for an importer, and sometimes the agent's *commission* is added, thus, "C.I.F.C.I." (*i.e.*, Cost, Insurance, Freight, Commission and Interest).

C.I.F. & E. signifies a C.I.F. quotation which includes also the risk of *exchange* fluctuations.

EX SHIP is a quotation commonly met with in the import trade of the United Kingdom. It means that the seller will pay all expenses up to the time the goods arrive at the port of discharge but that the buyer must bear the cost of taking delivery *from the ship*. In certain ports such a quotation may involve the buyer in considerable charges, *e.g.*, in London a "London Charge" of 2*s.* 6*d.* per ton is made for unloading goods. The main object of such a quotation is to ensure that the shipping company shall be reimbursed for expenses incurred when it is

necessary to land goods into hulks or private warehouses because there is no available ordinary dock accommodation.

LANDED signifies that the seller pays all expenses on the goods up to the point of discharge, including those involved in landing them from the ship at the named port. In the case of Eastern ports such a quotation involves the loading of goods into lighters for transport to the shore, and in practically all such cases a landing charge of some kind is involved. "Landed" terms do not usually include dock charges for handling the goods when once they have been landed, though "London charges" would be included.

IN BOND means that delivery is to be made into a Customs Bonded Warehouse at the named port, but that any charges for withdrawal therefrom and for import duty have to be borne by the buyer. In such a case the seller will have to make the required Customs Entry for the goods and obtain a Warehouse Warrant.

DUTY PAID includes the import duty, and may or may not include the charges for warehousing to the date of withdrawal.

FRANCO, RENDU or FREE means that all charges for delivery to the buyer's warehouse are included in the quotation. Such prices are extremely difficult to quote, and are used only where the exporter has had previous experience of the costs involved. "Franco" quotations are naturally more common in trade between neighbouring countries; thus a British exporter dealing with France or Germany should be able to quote such prices.

Terms of Payment.

These, too, enter into the calculation of prices in foreign trade. An exporter who is an agent or merchant would meet not only with the terms of payment which were explained in Chapter 26, but also with the following:—

C.W.O. (CASH WITH ORDER) and C O.D. (CASH ON DELIVERY) are occasionally used in first transactions, or where single articles of small value are exported. Under C.O.D. terms payment is usually secured by sending the *relative documents* of title through a bank, or by sending the *actual goods* by postal C.O.D. service. In either case delivery is made only on payment of the invoice amount.

REMITTANCE TERMS are favoured by many Eastern importers, but are granted only when the credit of the importer is well established. Importers in India, China and Siam prefer to settle their accounts by remitting to this country, and they aim at making such remittances at times when exchange quotations are most favourable to them. Hence, it is usually understood that they will pay interest on any unpaid balances which are awaiting settlement.

DRAFT TERMS include all conditions of sale involving the drawing of a draft by the exporter. Such conditions stipulate usually that the documents of title to the goods shall be delivered to the importer either against acceptance (D/A) or against payment (D/P) of the relative bills of exchange (see Chapter 40).

The Order or Indent.

The next stage in exporting procedure is marked by the importer's acceptance of a quotation, and takes the form either of an *Order* or of an *Indent*, which is forwarded by telegraph, cable or mail to the seller or to the importer's buying agent. This contains the importer's instructions concerning the goods to be exported, gives full particulars with regard to size, quality, shipment required, etc., and also states the price the importer is willing to pay.

The term "indent" arises from the custom at one time for such orders to be made out in three copies, which were placed together and *indented* or torn irregularly at the edge, with the object of preventing forgery or the substitution of any one copy by another document. Nowadays this procedure is unnecessary, because, by means of carbon papers, actual facsimiles can be made in triplicate.

Modern indents differ very little from orders, but those sent to commission agents represent not orders for goods, but orders *to buy* goods, or *to receive* goods from various manufacturers from whom they are already ordered, and to include them in the same consignment with goods to be bought. An "open" indent leaves the selection of the goods to the agent, while a "closed" indent gives full particulars of the exact goods required, and probably mentions price, brand and manufacturer.

Frequently, an indent is followed by a counter-offer owing to the fact that the price on the indent is not acceptable to the merchant. The offer may pass backwards and forwards three or four times before it is finally accepted, in which case a so-called "Confirmatory Indent" is sent by the importer to the merchant arranging the shipment.

The spread of advertising, and the attempts of manufacturers to make their wares known abroad, are causing importers to tend more and more toward the issue of "closed" indents. The importance attached in China markets to trade-marks (known as "chops") causes Chinese importers to stipulate goods of certain well-known brands.

SPECIMEN INDENT.

Indent No. *A. 416.*

94 Smith Street,
Durban,
South Africa.
24th March, 19...

Messrs. James Hands & Co., Ltd.,
Leadenhall Street,
London, E.C. 3.

Dear Sirs,

Kindly purchase and ship on our account the under-noted goods, or as many of them as possible :—

DELIVERY *C.i.f. Durban.*

PAYMENT *Draw at 10 d./s., D./A., through Bank of South Africa Ltd., Durban.*

SHIP *By Rennie's. Delivery before 1st Sept.*

MARK J D C *201—upwards.*
Durban

Yours faithfully,
JOHN DAWSON & Co.
per M. SIMES.

No. or Quantity.	Description.	Price or Quality.	Remarks.
6 doz. .	Ajax Cycles (3 doz. each ladies' and gentlemen's patterns)	Half "A" quality Half "B" quality	Transfers on frame "John Dawson & Co., Durban."
12 . .	Motor Cycles (3 each Minerva, Roade, Rex and Jester)	Various prices in each make	Transfers as above.
½ gross .	Cycle pumps—hand	Medium quality	
3 doz. .	Cycle pumps—foot	,,	
6 doz. .	Cycle bells	,,	
6 doz. .	Cycle carriers	,,	
3 doz. .	Cycle saddles (gentlemen's)	Good quality	

NOTES.

(1) Indents are numbered just as order forms are numbered, and for the same reason.

(2) "*Or as many of them as possible.*" Some such phrase as this is often inserted to indicate that the buyers will not refuse to accept a portion of the goods if the order is incomplete.

(3) The delivery date and shipping time are mentioned by the buyer to ensure his getting the goods in time for a seasonal sale time. Cycles are mostly bought in the spring, and spring starts in South Africa about September.

(4) Payment at 10 d./s. means that the buyers will pay the amount of the bill of exchange drawn on them by the agent, not later than 10 days after it is presented to them. The process will be explained later. D./A. (*Documents against Acceptance*) means that the documents of title to the goods must be delivered to the importers against acceptance of the bill of exchange. Similarly D./P. means *Documents against Payment*.

(5) Part of the above indent is *closed*; that is, it is an order for specific goods. Part is *open* and merely indicates classes of goods and qualities. In the first case the agents simply give the orders and instructions to the firms concerned. In the second case their buyers must select and buy for the Durban firm, who trust to their knowledge and skill.

(6) Goods sent by ship do not have the name and address of the importer marked upon them, but bear some distinguishing mark, number and port mark. The object of this is to facilitate unloading, completion of Customs entries in various ports, and to ensure secrecy to the importer.

Dealing with the Order.

The indent is acknowledged and then "sorted" in the exporter's offices; that is to say, it is divided into the various classes of goods, and for "open" lines a decision is made as to the exact articles to be ordered, and the firms to which the orders shall go. The ordering and purchasing of the goods are inland transactions and will, therefore, proceed on the lines indicated in Chapter 26. As soon as these details are settled, and a particular ship has been decided upon, all the particulars are entered in the Shipping Book, a sample entry of which is shown below. The blank column is used when the goods have been delivered.

Shipping Book.

Ship.	Mark and Numbers.	Particulars of Indent.	Supplier.	Goods.	Order No.	Loading Dock.	Closing Date.	Delivery.	Delivered.
s.s. *Centurion*	J D C DURBAN Nos. 201–212	A–416 Dawson & Co., Durban, 24 Mar. 19...	The Ajax Cycle Co. Coventry	12 c s. each contg. 6 Ajax Cycles	117166	West India	June 30	F.O.B.	

Packing and Marking.

Packing may be undertaken by the manufacturer or by a firm of packing agents. It is an extremely important part of the exporting procedure and should receive careful attention. Any instructions given by the importer must be strictly observed, or, where no instructions are given, the custom of the particular market for that class of goods must be carefully followed. In

order to facilitate handling, the packages must not be too bulky and, where the mode of transport adopted in the importing country is primitive, *e.g.*, by means of human labour or by mules, this point must be borne in mind. Again, the freight charged may be based upon the measurement of the consignment, and in this case the maximum quantity of goods, consistent with safety, must be packed in the minimum of space.

If the goods are not uniform in size and shape, they should be put together in the warehouse as compactly as possible in the position in which it is suggested they should be packed. The packer will then make arrangements for cases or bales of appropriate measurements to be made.

A distinctive mark and number, together with the port of destination, should be stamped on each package by means of a stencil. The measurements should also be marked on the outside, and in some cases the gross weight, tare and net weight should be included. The use of a distinctive mark for each class of goods is of great advantage in facilitating the storing of goods on arrival, and this usually consists of some simple geometric figure which may include the initials of the importing firm and the number of the indent.

B. E.M. 4/33	1/19 M.A.T. 350
RANGOON	SHANGHAI

Shipping the Goods.

When the goods are ready for delivery the exporters make arrangements with the shipping company to reserve space for the goods—an important matter when trade is brisk—and send shipping instructions to the various manufacturers or merchants from whom the goods are being obtained. One of these is illustrated below.

Shipping Instructions.

JAMES HANDS & CO., LTD.,
LEADENHALL STREET,
E.C. 3. *20th June*, 19...

THE AJAX CYCLE CO., LTD.,
COVENTRY.

We note from your advice of the 18th instant that the goods listed below are ready.

Will you please despatch them to our order per L.M.S. Ry., f.o.b. *Centurion*, West India Dock, P.L.? The goods must be on the dock by the 26th inst. at latest.

Kindly note particularly :

(1) If the Mark here given does not agree with that on our Order, hold the goods and notify us *immediately*.

(2) If there is any delay in forwarding, return this note at once with particulars and earliest forwarding date.

(3) Please forward to us invoices in triplicate immediately the goods have been despatched.

Yours faithfully,

pp. JAMES HANDS & CO., LTD.,

John Smith,
Manager.

MARKS.	PACKING.	ORDER No.	GOODS.
J D C DURBAN Nos. 201 to 212 [Stencil net and gross weights and dimensions on each case.]	12 cases	117166	72 Ajax Cycles (36 gent.'s pattern and 36 ladies'). Half "A" quality, half "B" quality of each pattern.

NOTES.

(1) The three paragraphs headed "Kindly note particularly" are important. The first is intended to prevent the wrong goods going with the consignment. The mark should show at once if the shipping clerk has blundered in making out the instructions, or the order clerk in making out the order. The second paragraph is intended to prevent goods being delivered at the dock, consigned for shipment by the *Centurion*, after that ship has sailed. The third is to ensure the appropriate documents being ready for shipment.

(2) The dimensions and weights are stencilled on the cases to facilitate and check the calculation of the freight charges. Sometimes shippers lodge a specification giving measurements and weights of cases, so that they have something to refer to in case of a dispute over a freight charge. A shipper may obtain a re-weighing order if he remains dissatisfied, and then the goods are re-weighed or re-measured at the port of delivery. This rarely happens, however.

(3) It is presumed the manufacturers know how to pack cycles for export. Generally the handle-bars and pedal brackets are removed so that flat packing is possible. The various parts are vaselined for protection, and the leather parts—saddle and tool bag—properly protected.

(4) After the date on which a ship "closes for cargo," no cargo will be accepted for the voyage. Most cargo vessels are "open" up to a very short time before sailing, but big consignments cannot be accepted late, because the loading would delay the ship. Ships frequently close for cargo for various ports on different dates. This is to provide for the necessity of loading into the ship last the cargo which has to be discharged first.

Where it is found impossible to ship the whole consignment by the particular vessel, those goods not taken aboard are referred to as "*shut-out*" or "*short-shipped*," and the relevant documents are cancelled.

If the exporter of the goods resides inland, the actual shipping will be carried out on his behalf by a shipping agent to whom an *Advice Note* is sent containing particulars of the goods, name of steamer or ship, destination, measurements or weight, and value of the goods. In the example described, it is assumed that the exporters carry out the shipping procedure.

About the same time as the Shipping Instructions are sent out, the exporters may deliver to the dock certain of the other goods which have been bought by them in London and which they have unpacked, inspected and repacked. With the goods they send a *Shipping Note* (or *Shipping Order*). As regards those goods which the suppliers pack and deliver to the dock, the Shipping Note would be prepared and delivered by the suppliers.

Shipping Note and Dock Receipt.

No. *J.174*
West India Dock.
s.s. "*CENTURION*"
for Durban.

John Dawson & Co.
J D C 213
DURBAN.

0/117167

Received

....

Leadenhall Street,
E.C. 3.

No. *J.174.* *25th June*, 19...

To the Superintendent,
West India Dock.

Please receive the undernoted cases and ship by s.s. "*CENTURION*"
for Durban.

All charges to our account.

JAMES HANDS & CO. LTD.
JOHN SMITH,
Manager.

MARK AND NOS.	PARTICULARS.	REMARKS.
J D C *Durban* 213	*One* (1) *Case Cycle Accessories.*	*Part of Consignment to same mark.* *Gross measurement* 4′ × 6′ × 1′ 8″

NOTES.

(1) The counterfoil is retained by the exporter as his record of the note that has been sent. Perhaps a better method is to have the Shipping Note made in actual duplicate by means of a carbon copy, as this avoids the possibility of any difference between the counterfoil and the note itself. The carbon copy is similar in form to that given above, except that, in place of the words "Please receive" is printed the word "Received." The object of this is to enable it to be presented by the delivering carman to the Dock authorities for signature, after which the document becomes a *Dock Receipt*.

(2) The exporters send in the Shipping Note because they effect actual delivery of the cycle accessories at the docks themselves. In the case of goods consigned through to the docks (*e.g.*, the cycles ordered in Coventry),

the railway company would be responsible for delivery and would make out the Shipping Note and obtain the Dock Receipt.

(3) Sometimes a shipping company will not accept goods for shipment unless the Shipping Note is "backed." This happens when there is great pressure on the carrying space, and there is a possibility that goods may be delivered for shipment which simply cannot be loaded, and will have to remain on the dock. To avoid this the shipping company informs shippers that all Shipping Notes must be submitted to them before goods are sent to dock. If the vessel is not yet full, they indorse the Shipping Note on the back ("backing"); if all its space is arranged for, the shipper is told so and does not deliver his goods to the dock.

Dock Receipts and Mate's Receipts.

Goods may be delivered to a ship either directly, from the quay or from a lighter or barge, or through a dock company or warehouse.

Mate's Receipt.

The Blackton Steamship Company Ltd.

Port of *Liverpool.* *11th May*, 19...

Received in apparent good order and condition on board the s.s. *Queen Mary* for delivery at *New York* subject to the conditions of the Bills of Lading of this line.

Marks.	Quantity.	Goods said to be	Remarks.
PR 1–8	*8 Bales*	*Cotton*	

William Brown,
Officer's signature.

Name of Shippers: *Wm. Thompson & Sons, Ltd.*

In London direct delivery can be performed only by barge, the licensed watermen having the freedom of the river and docks. All other goods are received by the Port of London Authority (controlling all the docks in the Port of London), which gives its own receipt.

In New York each shipping company leases "sheds" and quays, to which goods may be delivered. In such cases the shipping company's receiving clerk at the quay gives the receipt. Delivery may also be made by lighter.

In Eastern ports delivery is frequently possible only by lighter, for the water alongside the quays is not usually deep enough for steamers.

When delivery is made to the dock, a *Dock Receipt* or *Wharfinger's Receipt* (see p. 508) is received, but, when the goods are delivered direct to the ship, the carriers obtain a *Mate's Receipt*, which is a receipt for the goods signed by or for the mate (chief officer) of the ship. Each of these documents

constitutes a receipt for the goods and is eventually exchanged for a Bill of Lading.

Freight Rates and Rebates.

The exporter will usually discover that practically all the lines serving the main world routes are combined in Conferences (see Chapter 23), and that they have agreed rates of freight for the carriage of various goods between given ports or for a given distance. He will learn that, by agreeing to ship all his goods by lines which are members of a particular Conference, he is entitled to receive a rebate based on the amount of freight paid by him over a certain period. In some cases these rebates are *deferred*, being paid, say, six months after the period which they cover, and payment being conditional upon the shipper having *continued* to ship by Conference lines only. Other lines outside the Conference, not being put to the necessity of paying rebates, are able to offer competitive rates, and it is sometimes to the advantage of an exporter to ship by non-conference ships, most of which are tramps, though some of the regular lines are outside the conferences.

Deadweight Tons and Measurement Tons.

Since a ship must carry a certain weight of cargo or ballast, goods that are light in relation to their bulk not only take up much space but may also necessitate the loading (and subsequent unloading) of ballast. Such goods are, therefore, charged per *ton measurement*, 40 cubic feet being equivalent to one ton.

The shipowner reserves the right to charge freight according to *measurement tons* or *deadweight tons*, whichever method yields the larger sum. For instance, a shipment of 6 cases, each 5 feet × 4 feet × 3 feet and weighing 1 ton, would be equivalent to 9 measurement tons or 6 deadweight tons. If the freight rate were £1 per ton, weight or measurement, the shipowner would charge freight according to measurement tons.

Securing the Bills of Lading.

When the goods have all been delivered to the docks the exporter immediately prepares the necessary documents (*Bills of Lading* and *Invoices*), and insures the goods against maritime and other risks in transit.

The *Bill of Lading* is a document wherein the steamship company gives its official receipt for goods shipped in one of its vessels, and at the same time contracts to carry them to the port of destination. It is also a document of title to the goods and, as such, is freely transferred by indorsement and delivery. *A bill of lading is not, however, a fully negotiable instrument* (see Chapter 40). Copies of these bills, made out specially for any of the big lines, can be bought at certain stationers, or they can be obtained from the offices of the company itself or from its agents.

For each consignment five copies of the relative bill of lading are *generally* necessary, each of these bearing reference to the others. Two or three of the bills must be signed, and *all* the signed copies must bear a sixpenny stamp. The exporter fills in the particulars of the goods, marks, destination, name of ship, and so forth, and lodges the bills at the shipping company's offices together with the dock receipts (or mates' receipts, as the case may be). The shipping company makes out a *Freight Note* (invoice of the charge for carrying the goods) and forwards it to the exporter. As soon as the freight charges are paid, or payment thereof otherwise satisfactorily arranged for, the bills of lading are checked and signed by an authorised clerk on behalf of the master of the vessel, and the shipping company returns the receipted freight note, together with the signed and stamped bills of lading, to the exporter. Very often the bills of lading are sent with the freight note, and the charges for freight are paid later, but a shipping company will take this course only with a shipper who is well known to them.

The stamped copies convey the title to the goods, and, since one of them must reach the consignee before he can claim the goods to which they relate, it is customary to send at least two copies and sometimes three copies by different mail steamers, so that if one, or even two, are lost, there is still a third to rely on. One unstamped copy is usually retained by the exporter, and one by the master of the ship, for purposes of record.

When goods are sold under a contract whereby the importer agrees to pay freight—this is most common with raw materials and commodities subject to pilferage—the bills of lading will be sent forward to the importer marked "Freight Forward," but this can be done only by agreement with the shipping company. When the goods in such a case arrive at their destination, the importer presents the bill of lading to the shipping agent, who passes him a freight note and, on payment of the freight, stamps the bills of lading with a *Freight Release.*

Freight Note.

LIVERPOOL, *6th October*, 19...

MESSRS. *Keeper & Co., 58 Victoria St., E.C.*

DR. TO THE BRUNT STEAMSHIP COMPANY LTD.

						MEAS.		RATE.	FREIGHT.			TOTAL.		
J. S.		TONS.	CWT.	QRS.	LB.	FT.	INCH.		£	s.	d.	£	s.	d.
Shanghai 73, 86	*14 Bales of piece goods*	1	8	1	—			20/-	1	8	3	1	8	3

N.B.—Any objection to this a/c must be lodged within a week after date or no allowance can be made.

A bill of lading signed without any indorsement is called a "*clean*" bill of lading, and is taken as proof that the relative goods—or at least the cases—were in good condition when loaded. If, however, the document bears an indorsement such as "two sacks broken," or "one case damaged," the bill of lading is a "*foul*" bill. Such a bill of lading is of little value as security, or as a document of title. If the importer is inclined to take any opportunity of refusing delivery or of making claims for damage, such a foul bill of lading generally results in trouble. In order to avoid this the exporter usually endeavours to persuade the Shipping Company to accept a *Letter of Indemnity*, which is a letter addressed by the exporter to the Shipping Company, agreeing, in return for clean bills of lading, to indemnify the Company for any claim on the part of the importer in respect of the goods.

Bills of lading are clearly most important documents, as the master of the vessel will hand over the goods only to the persons named on them, or to any other person to whom they may be indorsed. When a bill of lading is made out in favour of a named person "or his order or assigns," it cannot be effectively transferred without his indorsement.

BILL OF LADING.

Shipped in good Order and condition by *John Harris & Co., Ltd.*, in and upon the good STEAM SHIP "*Primrose*," whereof is Master for this present voyage *James Brown*, and now riding at anchor in *Tilbury Docks* and bound for *Buenos Aires*,

23 chests of Tea, marks TXX, 1–23,

being marked and numbered as *stated*, to be delivered in the like good Order and well conditioned at the aforesaid Port of *Buenos Aires* (the Act of God, the King's Enemies, Fire, Machinery, Boilers, Steam, and all and every other Dangers and Accidents of the Seas, Rivers, and Steam Navigation, of whatever nature and kind soever excepted) unto *Ambrose and Brown* or to *their* Assigns, *landing charges and* Freight for the said Goods *to be paid by the consignees*, with Average as per York-Antwerp Rules, 1924, and charges as accustomed.

In Witness whereof the Master or Purser of the said Ship hath affirmed to *three* Bills of Lading all of this Tenor and Date, the one of which *three* Bills being accomplished, the other *two* are to stand void.

Dated at LONDON, *7th April* 19...

James Brown,
MASTER.

Value and contents unknown.

***This bill is issued subject to the contents of* 14 *and* 15 *Geo. V., c.* 22.**

Form of Bill of Lading.

The specimen Bill of Lading here reproduced is a very simple and modified form. Those used in practice contain a long list of exceptions and conditions defining the extent of the Shipping Company's liability.

A Bill of Lading serves three purposes :—

1. It is a *document of title* to the goods.
2. It *acknowledges receipt* of goods on board.
3 It incorporates all *terms of the contract* of affreightment between the shipper and shipowner.

In 1921, following an international conference at the Hague, a standard set of clauses for bills of lading was drawn up for use as an international code. *The Hague Rules*, as they are called, set out the rights, responsibilities and liabilities of the carrier in respect of goods whilst on board his vessel, and thus are complete in themselves. If a bill of lading contains a provision incorporating the Hague Rules, then the whole of those rules apply as if they were each set out in the bills of lading.

The Hague Convention was ratified by Great Britain and the Hague Rules were given statutory effect by the *Carriage of Goods by Sea Act*, 1924. As a result of this Act, all goods which are carried by sea under a bill of lading *from* any port in Great Britain are carried subject to the provisions of the Act which forms the basis of the liability of a sea-carrier. In accordance with this Act, every bill of lading issued in respect of such shipments must incorporate, as part of its terms, the Rules scheduled in the Act, which amount, in effect, to a series of standard clauses. These rules impose on the carrier certain responsibilities and liabilities in relation to the loading, handling, stowage, carriage, custody, care and discharge of the goods, and, at the same time, they entitle the carrier to certain rights and immunities.

The Carriage of Goods by Sea Act, 1924.

The Act applies to all contracts of carriage by bill of lading from any port in Great Britain or Northern Ireland. The chief provisions are as follows :—

(1) *Upon receipt of the goods the carrier or master must on demand issue a bill of lading showing :—*

(*a*) The marks of identification on the goods.
(*b*) The number of packages or weight of goods.
(*c*) The apparent order and condition of the goods.

The shipper must furnish the carrier with a written statement of the marks and quantity of the goods, the accuracy of which he is deemed to guarantee, being liable to indemnify the carrier for loss due to inaccuracy, but otherwise the bill of lading is to be *prima facie* evidence that the carrier has received the goods as described therein.

(2) *The carrier gives no implied warranty of seaworthiness*, but must exercise due diligence in making the ship seaworthy and fit to receive and carry the cargo. Proof of due diligence will, therefore, discharge the carrier from liability for loss through unseaworthiness.

(3) *Removal of the goods into the custody of the consignee is to be* prima facie *evidence of their delivery* as described in the bill of lading, unless written notice of loss or damage is given to the carrier :—

(*a*) If loss or damage is apparent, at the time of removal ; or
(*b*) If not apparent, within three days after removal.

Action for loss or damage must in any event be commenced within one year of delivery or the date when the goods should have been delivered.

(4) *Any Clause which purports to relieve a carrier from liability* for loss of or damage to goods arising from negligence or failure to carry out his duties imposed by the Act *or to decrease his statutory liability is void*, but in the following cases the carrier is released from liability by the Act :—

(*a*) Loss through unseaworthiness in spite of due diligence on the part of the carrier.
(*b*) Loss from neglect in navigation, fire without fault or privity, perils of the sea, act of God, act of war, act of public enemies, arrest of rulers and princes, seizure under legal process, quarantine restrictions, negligence of shipper, strikes and lock-outs, riots, saving or attempting to save life or property at sea, inherent defect or vice, inadequate packing, latent defects, any other cause not due to the fault or privity of the carrier or his servants.

In particular, the carrier is not liable for loss or damage resulting from a *reasonable deviation*, nor is such a deviation deemed to be an infringement or breach of the contract of carriage. For this purpose, deviation to save life *or* property is deemed to be reasonable (cf. page 516). Moreover, in no case can the carrier be liable for more than £100 per package or unit, unless the nature and value of the goods have been declared by the shipper before shipment and inserted in the bill of lading. Such a declaration embodied in the bill is *prima facie*, but not conclusive, evidence against the carrier.

(5) If *Dangerous Goods* are carried, the carrier has the following privileges :—

(*a*) If he has not consented to carry such goods, he may at any time discharge or destroy the goods without liability, and the shipper will be liable for any loss or damage resulting from the shipment.
(*b*) If he has consented to carry such goods, he may, upon the goods becoming actively dangerous, discharge or destroy them, subject to a general average liability.

(6) *The carriers' liability may be increased by express provision in the bill of lading*, but cannot be reduced unless no bill of lading is employed.

Charter Party.

Where a shipowner lets a ship or some part of it for the conveyance of goods for a particular voyage or for a specific period, such an agreement is termed a *Charter Party* and requires a sixpenny stamp. The ship usually remains in the possession, and under the control of, the charterer for the specified voyage or time. The particular port at which the

ship is to discharge may not be stated in the charter party, this being disclosed later. Where a specific commodity is mentioned nothing else can be shipped, but the cargo is usually described as "lawful merchandise," which includes almost any commodity not liable to damage the other cargo on the ship.

Charter parties are of several kinds, but usually fall into one of two classes: (a) *voyage charters* and (b) *time charters*.

A *Voyage Charter* is one under which a ship is hired for one or more voyages, whilst a *Time Charter* is one providing for the hire of a ship for a specified time.

There are many well-defined forms of charter party used in various trades, but all provide, *inter alia*, as follows:—

(1) The shipowner undertakes that the ship is in a seaworthy condition, and that it shall sail for the port of shipment at a certain time.
(2) The charterer agrees to load a specified amount of cargo on the ship, and to pay freight on an agreed tonnage.
(3) Provision is made for days to be allowed for loading and unloading, known as *Lay Days*, and for the payment by the charterer of *Demurrage* for days in excess of that period, or payment by the shipowner of *Despatch Money* for Lay Days not utilised.

Both demurrage and despatch money are usually calculated at so many pence per registered ton per day.

It is generally provided that lay days shall begin to run twenty-four hours after notice that the ship is available for loading or unloading. When described as "*running days*," the days run consecutively, but when described as "*working days*," Sundays and public holidays are excluded.

Dead Freight.—Freight is usually calculated at so much per ton, and if the ship is not fully loaded, the difference between the freight or the actual cargo shipped and the total freight which must be paid is referred to as Dead Freight.

Common Carriers by Sea.

The liability of a shipowner who carries goods for reward is that of a Common Carrier by Sea. As in the case of a Common Carrier by land the shipowner has the usual common law liability to the shipper; but his liability is restricted by the *Merchant Shipping Act*, 1894, as follows:—

(*a*) *He is totally exempt from liability* for loss due, without his own fault or privity, to (1) fire on board ship; or (2) theft or embezzlement of certain specified goods.

In the latter case, however, the carrier will be liable if a written declaration of the nature and value of the goods was given at the time of the shipment.

(b) *He is partially exempt in any other case* of loss or damage not due to his own fault or privity.

In such cases of partial exemption the carrier's liability is limited to £15 per ton of the ship's tonnage for personal injury or loss of life and goods, and to £8 per ton for loss of goods only.

As explained above, the liability of a carrier under a bill of lading where goods are shipped from a port in this country is further delimited by the *Carriage of Goods by Sea Act*, 1924.

Where there is no bill of lading, the carrier usually places a limit on his liability: such are the *express* limitations made by the conditions and warranties in the usual form of charter party. But in the absence of any contrary provision the following warranties are implied:—

(a) That the ship is seaworthy up to the time of sailing and fit to receive the cargo up to the time of loading.
(b) That the voyage will be commenced and completed within reasonable time.
(c) That there shall be no unnecessary deviation.

Deviation or delay is excused, however, where so specified in the contract; where beyond the control of the Master or his employer; where reasonably necessary to comply with an express or implied warranty; where necessary for the safety of the ship or cargo; where reasonably necessary to save human life or to aid a ship in distress, if human life may be in danger (but not to save property only); and, finally, where reasonably necessary to obtain medical aid for any person on board.

Bottomry.

The owner of a vessel has a lien on the cargo for the freight due, and in some cases he has power to raise money on the cargo, *e.g.*, if the ship is damaged and the captain is compelled to put into port to carry out repairs. He may draw and sell a draft on the owners, raise money on the security of the ship, freight or cargo, or sell part of the cargo.

Where the captain pledges the ship, he executes a *Bottomry Bond* or mortgage on the ship. If the freight and cargo are included, the same term is applied to the document, although it is more correctly called a *Respondentia Bond.* The money lent is paid back when the vessel reaches her destination, and the bond usually includes a clause which provides that if further bottomry bonds should be required before the completion of the voyage, the second bond shall have priority over the first. Should the vessel be lost, the bond is void and the lender loses his money.

A bottomry bond is transferable by indorsement and is usually indorsed payable to an agent at the port of destination. Should a respondentia bond not be paid, the lender's remedy lies first against the ship, next against the freight and lastly against the cargo.

If the captain is compelled to adopt the last method of raising money, *i.e.*, by selling part of the cargo, any loss incurred is payable by the underwriter under a General Average policy (see Chapter 46).

Insuring the Goods.

Before the goods can be despatched, they must be insured against risk at sea. The main features of Marine Insurance are discussed in detail in Chapter 46, but here we may observe that there are two main classes, differing in the amount of "cover," or protection, they give :—

(1) WITH PARTICULAR AVERAGE (W.P.A.), which covers not only Total and General Average Loss, but also any loss or injury to the particular consignment suffered in transit, which is not by way of General Average (see below). "Average" in this connection has a particular meaning and signifies sea-loss.
(2) FREE OF PARTICULAR AVERAGE (F.P.A.), which insures against Total Loss and General Average Loss only.

As all the goods in the transaction which was considered above are well and securely packed in stout cases, the exporters might be satisfied with a F.P.A. policy, but it is customary to insure all other than rough goods, such as timber and ore, against all risks. Good packing usually enhances the possibility of obtaining reduced rates on a W.P.A. policy.

Assuming that the exporters determine to insure W.P.A., they may do so direct with an insurance company, or they may effect the insurance through a broker. If it is desired to insure with Lloyd's underwriters, the services of a broker are compulsory.

The Policy is a document setting out the contract for insuring the goods, and, like most contracts, has to be stamped to make it legal. Marine policies can be made out in favour of one person or firm, and by simple indorsement and delivery may be assigned to another.

There is one other term in marine insurance which must be understood. Suppose the ship *Centurion* encountered difficulties during its voyage, and, for the general safety of the crew, cargo and ship, the captain was forced to lighten the ship by casting over (*jettisoning*) cargo, or that he had to employ another vessel to tow him into port. In such a case the cost of the action thus taken to save the ship is a *General Average* sacrifice and must be shared proportionately by all the parties concerned, *i.e.*, by the owners of the cargo, ship and freight, or by their respective underwriters. There is a long list of such possible risks, and they all come under General Average, whether the loss is to the ship, to the cargo, or to the freight earned.

LLOYD'S MARINE POLICY.

SEAL OF LLOYD'S.

1s. 6d. STAMP DUTY

Be it known that Messrs. Richardson & Clarke as well in *their* own Name, as for and in the Name and Names of all and every other Person or Persons to whom the same doth, may, or shall appertain, in part or in all, doth make Assurance, and cause *themselves* and them and every of them to be insured, lost or not lost, at and from

London to Port Natal

Any person not an Underwriting Member of Lloyd's subscribing this Policy, or any person uttering the same if so subscribed, will be liable to be proceeded against under Lloyd's Acts.

upon any kind of Goods and Merchandises, and also upon the Body, Tackle, Apparel, Ordnance, Munition, Artillery, Boat and other Furniture, of and in the good Ship or Vessel called the

s.s. Centurion

S.G.

£1200

(No. 21/97316.)

whereof is Master, under God, for this present Voyage, *Robert Sharp,* or whosoever else shall go for Master in the said Ship, or by whatsoever other Name or Names the same Ship, or the Master thereof, is or shall be named or called, beginning the Adventure upon the said Goods and Merchandises from the loading thereof aboard the said Ship *as above*

upon the said Ship, &c., *as above,*

and shall so continue and endure, during her Abode there, upon the said Ship, &c.; and further, until the said Ship, with all her Ordnance, Tackle, Apparel, &c., and Goods and Merchandises whatsoever, shall be arrived at *as above*

upon the said Ship, &c., until she hath moored at Anchor Twenty-four Hours in good Safety, and upon the Goods and Merchandises until the same be there discharged and safely landed; and it shall be lawful for the said Ship, &c., in this Voyage to proceed and sail to and touch and stay at any Ports or Places whatsoever *and wheresoever for all purposes*

without Prejudice to this Insurance. The said Ship, &c., Goods and Merchandises, &c., for so much as concerns the Assured, by Agreement between the Assured and the Assurers in this Policy, are and shall be valued at

say on, twenty-six cases merchandise valued at One Thousand Two Hundred Pounds.

Touching the Adventures and Perils which we the Assurers are contented to bear and do take upon us in this Voyage, they are, of the Seas, Men-of-War, Fire, Enemies, Pirates, Rovers, Thieves, Jettisons, Letters of Mart and Countermart, Surprisals, Takings at Sea, Arrests, Restraints and Detainments of all Kings, Princes and People, of what Nation, Condition, or Quality soever, Barratry of the Master and Mariners, and of all other Perils, Losses and Misfortunes that have or shall come to the Hurt, Detriment or Damage of the said Goods and Merchandises and Ship, &c., or any part thereof; and in case of any Loss or Misfortune, it shall be lawful to the Assured, their Factors, Servants and Assigns, to sue, labour, and travel for, in and about the Defence, Safeguard and Recovery of the said Goods and Merchandises and Ship, &c., or any Part thereof, without Prejudice to this Insurance; to the Charges whereof we, the Assurers, will contribute, each one according to the Rate and Quantity of his sum herein assured. And it is especially declared and agreed that no acts of the Insurer or Insured in recovering, saving or preserving the property insured, shall be considered as a waiver or acceptance of abandonment. And it is agreed by us, the Insurers, that this Writing or Policy of Assurance shall be of as much Force and Effect as the surest Writing or Policy of Assurance heretofore made in Lombard Street, or in the Royal Exchange, or elsewhere in London.

Warranted free of any claim based upon loss of, or frustration of, the insured voyage, or adventure, caused by arrests, restraints or detainments of Kings, Princes or Peoples.

And so we the Assurers are contented, and do hereby promise and bind ourselves, each one for his own Part, our Heirs, Executors, and Goods, to the Assured, their Executors, Administrators, and Assigns, for the true Performance of the Premises, confessing ourselves paid the Consideration due unto us for this Assurance by the Assured

at and after the Rate of *six shillings and sixpence per cent.*

IN WITNESS whereof, we the Assurers have subscribed our Names and Sums assured in

LONDON, 27th June, 19...

N.B.—Corn, Fish, Salt, Fruit, Flour, and Seed are warranted free from Average, unless general, or the Ship be stranded; Sugar, Tobacco, Hemp, Flax, Hides, and Skins are warranted free from Average under Five Pounds per Cent.; and all other Goods, also the Ship and Freight, are warranted free from Average under Three Pounds per Cent., unless general, or the Ship be stranded.

Lloyd's Marine Policy.

£400	*Four Hundred Pounds.*	*James Randle.*
£500	*F. V. Robson ½* *D. Taunton ½*	*Five Hundred Pounds.* *D. Taunton.*
£300	*A. Smith ⅓* *S. Lawrence ⅓* *B. Jones ⅓*	*Three Hundred Pounds.* *John McCall,* *Agent.*

INSTITUTE CARGO CLAUSES (W.A.)

1 Warranted free of capture, seizure, arrest, restraint or detainment, and the consequences thereof, or of any attempt thereat (piracy excepted), and also from all consequences of hostilities or warlike operations, whether before or after declaration of war. — **F. C. & S. Clause**

2 Warranted free of loss or damage caused by strikers, locked-out workmen, or persons taking part in labour disturbances, or riots or civil commotions. — **Strikes, Riot and Civil Commotions Clause.**

Should Clause No. 1 be deleted, Clause No 3 is to operate as part of this Policy.

3. Warranted free of any claim based upon loss of, or frustration of, the insured voyage, or adventure, caused by arrests, restraints or detainments of kings, princes or peoples.

4. General Average and Salvage Charges payable according to Foreign Statement or per York-Antwerp Rules if in accordance with the contract of affreightment. — **G/A Clause.**

5. Held covered at a premium to be arranged in case of deviation or change of voyage, or other variation of the risk by reason of the exercise of any liberty granted to the shipowner or charterer under the contract of affreightment, or of any omission or error in the description of the interest, vessel or voyage. — **Deviation Clause**

6. The risks covered by this Policy attach from the time the goods leave the shipper's or manufacturer's warehouse at the port of shipment, unless otherwise stated, and continue during the ordinary course of transit, including customary transhipment if any, until the goods are safely deposited in the consignee's or other warehouse at the destination named in the Policy or until the expiry of fifteen days from midnight of the day on which the discharge of the goods hereby insured from the overseas vessel is completed, whichever may first occur. When the destination to which the goods are insured is without the limits of the port of discharge of the overseas vessel the risks covered by this Policy continue until the goods are safely deposited in the consignee's or other warehouse at the destination named in the Policy or until the expiry of 30 days from midnight of the day on which the discharge of the goods hereby insured from the overseas vessel is completed, whichever may first occur. Transhipment if any, otherwise than as above, and/or delay arising from circumstances beyond the control of the Assured, held covered at a premium to be arranged. — **Warehouse to Warehouse Clause.**

7. Including transit by craft, raft, and/or lighter to and from the vessel. Each craft, raft, and or lighter to be deemed a separate insurance. The Assured are not to be prejudiced by any agreement exempting lightermen from liability. — **Craft, &c., Clause.**

8. The Assured are not to be prejudiced by the presence of the negligence clause and/or latent defect clause in the Bills of Lading and/or Charter Party. The seaworthiness of the vessel as between the Assured and the Assurers is hereby admitted, and the wrongful act or misconduct of the shipowner or his servants causing a loss is not to defeat the recovery by an innocent Assured if the loss in the absence of such wrongful act or misconduct would have been a loss recoverable on the Policy. With leave to sail with or without pilots, and to tow and assist vessel or craft in all situations, and to be towed. — **Bill of Lading &c., Clause.**

9. Warranted free from average under the percentage specified in the Policy, unless general, or the vessel or craft be stranded, sunk or burnt, but notwithstanding this warranty the Assurers are to pay the insured value of any package which may be totally lost in loading, transhipment or discharge, also for any loss or damage to the interest insured which may reasonably be attributed to fire, collision, or contact of the vessel and/or craft and/or conveyance with any external substance (ice included) other than water, or to discharge of cargo at port of distress. This warranty shall operate during the whole period covered by the Policy. — **Average Clause.**

The broker prepares the policy (pp. 518–9) and takes it to the underwriters who have quoted him the rates. The first underwriter, James Randle, indorses it on the back "*£400 (Four hundred pounds)—James Randle.*" The second stamps on the back—

$$£500\left\{\begin{array}{l}\textit{F. V. Robson } \tfrac{1}{2}\\ \textit{D. Taunton } \tfrac{1}{2}\end{array}\right\}\begin{array}{c}\textit{Five hundred pounds.}\\ \textit{D. Taunton.}\end{array}$$

Mr. Taunton signs as agent for himself and his partner. The third stamps the policy thus—

$$£300\left\{\begin{array}{l}\textit{A. Smith } \tfrac{1}{3}\textit{rd}\\ \textit{S. Lawrence } \tfrac{1}{3}\textit{rd}\\ \textit{B. Jones } \tfrac{1}{3}\textit{rd}\end{array}\right\}\begin{array}{c}\textit{Three hundred pounds.}\\ \textit{John McCall.}\\ \textit{Agent.}\end{array}$$

It will be noticed that John McCall (probably a confidential clerk) is authorised to sign for this syndicate. When the full amount is made up, the policy is complete, and it is thereafter delivered by the broker, who collects the premium and distributes it among the underwriters through the mechanism of Lloyd's.

Having secured the policy, the exporters can send either the document itself or a duplicate to the consignee, and charge the amount of the premium in their invoice. If the value of the goods is not disclosed and included in the policy, the policy is referred to as "unvalued," and, in the event of any claim being made, the value of the goods insured must be proved.

Insurance Claims.

In case of any claim made under a marine insurance policy the following documents are necessary:—

Total Loss.	**Particular Average Loss.**
Bill of Lading.	Bill of Lading.
Captain's Protest.	Captain's Protest.
Insurance Policy.	Insurance Policy.
Subrogation of rights in the insured goods.	Certificate of Survey.
	Certified Account Sales.

Captain's Protest (or Ship's Protest) is the sworn statement of the captain giving particulars of the loss and the cause of it.

Certificate of Survey is given by the Lloyd's surveyor or other marine surveyor who surveys the goods and assesses the damage.

Certified Account Sales shows how much is eventually obtained for the goods after they have been sold in accordance with the recommendation of the surveyor.

Preparing the Invoice.

The invoice for the goods is made out in triplicate, or quadruplicate, to go with the three Bills of Lading. The invoice for this transaction is shown on the next page.

INVOICE.

Cable Address : Handcuff, London.
Codes Used : A.B.C. (6th Ed.), Lieber's & Private.

LEADENHALL STREET, E.C. 3,
LONDON.
27th June, 19...

MESSRS. JOHN DAWSON & CO.

Bought of JAMES HANDS & CO., LTD.,
Export Commission Agents.
Goods shipped per S.S. "*Centurion*" of *Rennie S.S. Line* on *28th June*, 19...

J. D. C.
DURBAN
201–226

MARK.		QUANT.	DESCRIPTION.		£ s. d.	£ s. d.
					1¼%	2½%
Cases.	*Nos.*					
12	201–212	6 doz. (72)	18 Cycles (Gents) Qual. A	£8	144 – –	
			18 Cycles (Gents) Qual. B	£5. 10	99 – –	
			18 Cycles (Ladies) Qual. A	£8	144 – –	
			18 Cycles (Ladies) Qual. B	£5. 10	99 – –	
3	213–215	three (3)	Minerva Motor Cycles	£36	108 – –	
3	216–218	three (3)	Jester Motor Cycles	£42	126 – –	
3	219–221	three (3)	Roade Motor Cycles	£50	150 – –	
3	222–224	three (3)	Rex Motor Cycles	£56	168 – –	
1	225	½ gross (72)	Cycle pumps—hand	10/– doz.		3 – –
		3 doz. (36)	Cycle pumps—foot	17/– doz.		2 11 –
		½ gross (72)	Cycle bells	6/– doz.		1 16 –
		½ gross (72)	Cycle carriers	10/– doz.		3 – –
1	226	3 doz. (36)	Cycle saddles (Gents)	26/– doz.		4 4 –
					1038 – –	14 11 –
			Commission @ 1¼%		13 – –	
			Commission @ 2½%			7 6
					1051 – –	14 18 6
						1051 – –
						1065 18 6
			Freight and primage			54 2 6
			26 cases			9 2 –
			B./L. 2/6. Cartage and Dock Charges 61/–			3 3 6
			Insurance £1200 @ 6/6%			3 18 –
			Drawn at 10 d./s. through the Bank of South Africa Ltd.			£1136 4 6

E. & O.E.

NOTES.

(1) *Primage* is a customary charge, usually of 10 per cent. on the freight, made by shipowners on all cargo. It was originally a bounty to the captain for taking care of the goods. Nowadays it is usually utilised for payments to shippers in the form of rebates.

(2) *Freight* is usually calculated per ton, per package, or *ad valorem* (according to value). The term "ton" in freight calculations may be either a ton weight of 2240 lb. (2000 lb. in the U.S.A.), or a ton measurement of 40 cubic feet. Thus freight (which is usually quoted in shillings and pence) is often quoted as so much per ton W. or M. (weight or measurement), in which case the shipping company has the option of charging the consignment at that rate which will give it the highest return. (See page 510.)

(3) "*26 cases.*" This is the cost of the cases containing the goods.

(4) "*B./L. 2/6,*" represents the cost of the B./L. forms and stamps.

(5) *Insurance* is calculated on the value (to the nearest £100) of the goods. In some cases the exporter is instructed to insure for 10 per cent. imaginary profit.

(6) *Commission*, in this case, is charged at two different rates, the higher rate being on the small items, which involve greater care and give most trouble in comparison with their actual value.

(7) "*Drawn at,*" etc. This information is given to show the importer whence to anticipate the exporter's draft and the documents covering the goods. The manner in which payment shall be made is a matter for agreement between the parties.

The items to be included in the invoice will, of course, depend upon the terms on which the goods have been sold, *e.g.*, C.I.F., F.O.B.

Certificates of Origin.

Owing to special trade agreements made with her Dominions and with certain foreign countries, Great Britain gets more favourable import duties on goods manufactured here and exported abroad than other countries get for their goods. That is to say, she gets what is known as "most favoured nation" treatment, as a return for imposing low or no import duties on goods sent into this country by the nations according the favoured rates. The arrangement gives an advantage to our customers abroad and incidentally also to us, because it is an inducement to trade with us. In order that the lower rate of import duty may be claimed by the importer at the country of destination, the Customs officials of that country have to be satisfied—

(1) As to the value of the goods.

(2) That the goods were manufactured in Great Britain, or that at least one-fourth of the cost of manufacture represents British material and/or British labour.

This latter information is set out in a "*Certificate of Origin,*" which is very often placed on the back of the invoice. The certificate takes the form of a declaration by the exporter as to the accuracy of the invoice particulars, and must usually be sworn by him either before a magistrate or before a Chamber of Commerce, after which it is presented to the Consul of the importing country for legalisation.

Consular Invoices.

In many countries *ad valorem* import duties are charged and, in order to avoid incorrect returns, it is required that the importer shall present an invoice containing the F.O.B. prices and shipping charges, duly certified as to correctness by the Consul of the importing country stationed in the exporting country. A special form is required, and the exporter or his agent has to swear to the accuracy of the prices given, after which the Consul appends his signature in return for a prescribed fee. One or more copies are retained by the Consul, one being forwarded to the Customs Authorities in the port of destination. The other copy (or copies) is handed to the exporter, who forwards it to the importer with the other documents.

There is a common impression that the use of consular invoices is *optional* on the shipper, and that where they are used the goods are not subject to examination by the Customs Authorities at destination. This is not so. Where the law of a country requires the use of consular invoices they are *compulsory*, and the goods cannot be obtained by the importer without invoices of that type; in fact, in certain cases a heavy fine is payable if such invoices are not available. Where there is no such legal requirement, then the use of such a document would be a waste of time and the Consul would refuse to sign the invoice.

It stands to reason, of course, that as all goods imported into a country have to be examined, the Consular Invoice must to some extent save time in this examination, since the Customs Authorities are more likely to rely on the particulars stated therein than they would on the details given in an ordinary invoice were that accepted.

Different countries have different requirements regarding import procedure, and their requirements vary from time to time. But as so many of them now demand Consular Invoices, which must be made on specially authorised forms, an exporter should *always* ascertain the latest requirements of any country to which he is sending goods, by applying to the Consulate concerned.

Customs Procedure.

Although there are no export duties in this country, particulars concerning the description, quantity and value of all goods exported must be supplied to the Customs Authorities by the shipper within six days of the final clearance of the ship. These particulars are given on a *Customs Specification Form* which can be obtained at stationers who supply such forms.

The completed Form 29 used in our specimen transaction is shown on page 524, and it will be seen therefrom that the

H.M. Customs & Excise

*** SPECIFICATION for British and Irish Goods only.**

No. 29 (Sale).

Except Coal, &c. (Form No. 29a), Arms, Ammunition, &c. (Form No. 26), and New Unregistered Ships departing on first foreign voyage (Form No. 5).

Port of *London*. Ship's Name *Centurion*. *Robert Sharp*, Master, for *Durban*.

Date of Final Clearance of Ship *30th June, 19*... ..

*The Specification of Goods exported must be delivered to the proper Officers within six days from the time of the final clearance of the Ship, as required by Customs Laws.

Marks.	Nos.	Number and Description of Packages.	This column for official use only.	Description of British and Irish Goods in accordance with the requirements of the Official Export List.	Net Weights or Quantities.	Value† (f.o.b.). £ s.	Final Destination of the Goods.
J D C *DURBAN*	*201/226*	*Twenty-six cases*		*Cycles*	*72*	*491 12*	*Durban*
				Motor Cycles	*12*	*557 12*	
				Cycle Pumps	*108*	*5 13*	
				Cycle Bells	*72*	*1 17*	
				Cycle Carriers	*72*	*3 1*	
				Cycle Saddles	*36*	*4 5*	
					TOTAL VALUE £	*1064 0*	

† The "f.o.b.," or free on board, value should be given.

I declare that the particulars set forth above are correctly stated.

Dated *3rd July*. 19 .

(Signed) *Jas. Hands & Co., Ltd.* ‡
(Address) *Leadenhall St.. E.C. 3.*

‡ Adding Exporter or Agent as the case may be.

(Countersigned) ....

Officer of Customs and Excise.

cost of packing, cartage and dock charges has been allocated approximately to the various goods.

Securing Payment.

When the shipment has been despatched, the exporter takes steps to reimburse himself for his outlay and commission. This he does under the conditions of the order by drawing a bill of exchange either on the importer or upon some bank with whom the importer has made suitable arrangements. There are three main methods by which the exporter may finally secure payment, under draft terms, each of which we shall consider in turn.

First, the exporter can draw a draft upon the importer, ordering payment to be made to the exporter's order or to his bank, attach to the draft the bill of lading, marine insurance policy, invoice, and certificate of origin, indorse the first three in favour of his bank (there is no necessity to indorse the draft if it is made payable to the bank), and hand the *documentary draft*, as it is now called, to his bank for collection. The bank will forward the whole to their branch or agents in Durban (in this case indorsing all necessary documents), who will present them to the importer, and the draft (or *acceptance*, as it is now called) will be retained until it matures for payment. Alternatively, if the credit of the importer is not assured, the documents may be handed over only on payment of the bill. Upon maturity of the draft it will be re-presented, and the funds received will be entered to the credit of the exporter's bank, which will then credit the account of the exporter. In this transaction the documentary draft would be handed to the London Office of the Bank of South Africa Ltd., since this is a condition of the order.

Had he desired to secure his funds earlier, the exporter could have asked the Bank of South Africa Ltd. to discount his draft, whereupon he would have been asked to sign a *Letter of Hypothecation.* This is a letter addressed to a bank, detailing a draft or drafts relating to a shipment of goods. In the event of the dishonour of the draft the bank is authorised to sell the goods in order to reimburse itself for the amount advanced to the exporter in discounting the draft. Provision is made in the letter of hypothecation (L./H.) for the adjustment of any balance owing to or from the bank, representing the difference between the face value of the bill and the proceeds of the sale of the goods, less the expenses thereof. The effect of the letter is to give the banker a charge over the goods and their proceeds.

The procedure with regard to presentation and payment of the bill would be the same as in the previous case, except that the proceeds of the bill would not be credited to the exporter, he having already been paid when his bill was discounted. This

method would most probably be followed in the example we have given.

It is a common practice nowadays for exporters to require importers to provide them with a *Letter of Credit*, the purpose of which is that the exporter shall be able to draw his draft upon a bank. In such a case the importer will request his bank to issue to its agent or branch in the exporter's country a letter of credit requesting the agent or branch to accept the exporter's draft drawn against a stated shipment. The letter of credit (L./C.) states the usance of the bill, a maximum amount, the period within which it must be drawn, and the documents which must accompany it. The bank issuing the credit will give the importer a letter, addressed to the exporter, authorising the exporter to draw such a draft, and repeating the stipulations referred to above. This letter of credit may contain words implying a guarantee that the agent bank *will* accept and pay the bills upon due presentation. It may also state that the draft must contain a reference to the number of the credit under which it is drawn. In such a case the exporter will attach the credit to his draft and present the whole to his own bank for discount. The exporter's bank will present the draft for acceptance by the bank upon which it is drawn and hand over all the documents in return for acceptance or payment, according to the circumstances of the transaction (see also Chapter 45).

Completing the Transaction.

All that remains is for the exporter to write to his customer in Durban, informing him of the shipment of the goods and the drawing of the draft, and enclosing a copy of the invoice for his information. Finally, the exporter would have to settle the accounts of his suppliers and those for insurance, freight, dock charges and cartage.

It should be understood that the above explanations are purely illustrative. Many orders are settled without the use of bills of exchange, in which case the shipping documents will probably be sent direct to the importer; or the exporter may hand them to his banker with the request to send them to his correspondent to be presented to the importer in exchange for the invoice amount.

EXPORT CREDITS INSURANCE

The Government's Export Credits scheme is designed to facilitate the financing of exports, where the importer's status is not sufficiently well known for the exporter's bank to be prepared to advance funds on the strength of the order. It is, in fact, a form of bad debts insurance.

The assistance given to exporters through the *Export Credits Guarantee Department*, in respect of goods wholly or partly produced or manufactured in the United Kingdom, takes two main forms :

(*a*) The Comprehensive Guarantee.—This is a guarantee against losses arising out of the insolvency of buyers, and is available for shipments to all overseas buyers. The exporter submits details of his estimated shipments for the ensuing twelve months, *i.e.* the year for which he is being ensured, his export trade for the previous five years and his bad debts experience, the buyers to whom he is exporting and the nature of the goods sent. The Export Credits Guarantee Department then assesses the risk and quotes a premium for two types of policy : (1) cover for 75 per cent. of all losses under the policy, subject to an agreed maximum ; (2) the same cover, but after a proportion of the loss calculated with reference to his past bad debts experience has been borne by the exporter himself. The premium for this second type of policy will be lower than that for the first type.

The exporter undertakes to "declare" all shipments as they are made, and to render periodically a return of accounts three months overdue.

(*b*) "Specific Policies."—This is similar to the comprehensive Guarantee, but is available for part only of the exporter's business, *i.e.*, either for an individual buyer or for a group of buyers. The premium is higher because the risks are not so well spread. By this policy the Department will cover an agreed percentage of unpaid bills drawn on buyers, the maximum being 75 per cent. The Specific Policy can also be used when goods are sold on open credit, *i.e.*, bills of exchange are not drawn, the buyer merely being debited in the seller's books.

Since the premiums charged by the Department for guarantees under this scheme are fixed on an economic basis, the arrangements have proved to be self-supporting, and no burden has been imposed on the taxpayer.

In our own country, in the United States and in Germany, more especially, much valuable assistance in relation to the provision of export credit has been rendered by private organisations, called *Credit Insurance Companies*, the most important of which in Great Britain are the Trade Indemnity Company and the General Trading and Finance Co., Ltd. These institutions guarantee or undertake responsibility for the due fulfilment of purchase contracts by overseas importers, and so enable exporters to accept orders from buyers on whose credit they could not otherwise rely.

A tripartite contract is drawn up between the company, the trader and the latter's banker. The company provides the banker with a *Banker's Bond* on the strength of a *Bill of Exchange Credit Policy* taken out by the trader. The bank is thus in-

demnified up to an agreed limit, and is reimbursed within three months from the date of the default by the foreign importer.

The private companies resent the competition of the Government, which, they consider, should confine itself to the insurance of *catastrophic risks*, such as those arising from war, earthquakes and revolutions. For the time being, however, the Government continues with its scheme.

QUESTIONS BEARING ON CHAPTER 34

1. If goods are sold on c.i.f. terms and are despatched by rail, what documents pass between seller and buyer in connection with the transaction from the issue of the order to the ultimate payment? (*R.S.A., Stage II.*)

2. What is a Bill of Lading? By whom and when is it issued? (*R.S.A., Stage III.*)

3. Rhodes & Co., of Bulawayo, order from Shorts & Co., of London, the following goods: 500,000 P.J. Cigarettes "Standard" size; 100,000 P.J. Cigarettes "Large" size; 6 gross briar pipes; and 10 dozen oilskin tobacco pouches.

Submit the above order in the form of an indent, with the usual instructions such documents contain.

Assume your own prices for the above goods, and prepare the invoice Shorts & Co. would send to Rhodes & Co., with the additional charges usual in such transactions. The cigarettes are subject to 10 per cent. and the remaining goods to 15 per cent. trade discount. (*C.A., Inter.*)

4. Explain carefully, and as fully as practicable, two methods commonly employed by British manufacturers for the sale of their products abroad. (*R.S.A., Stage III.*)

5. Explain fully the position of the "merchant shipper" in the export trade, making clear his field of activity, the nature of his transactions, and the general nature of the terms upon which he does business. (*R.S.A., Stage III.*)

6. A London merchant receives from Bombay an indent for goods which is executed in due course. What are the various documents which will have to be prepared in connection with this order from the time of its receipt in London, to the day when the goods are despatched? (*London Chamber of Commerce, Higher Certif.*)

7. What are the essential features of a bill of lading, regarded from the point of view of a merchant exporter? What other documents are required in connection with the export of goods? (*R.S.A., Stage III.*)

8. What do you understand by a "Certificate of Origin" and a "Consular Invoice"? When and why are they necessary? (*C.A., Inter.*)

9. What, in Commerce, is a "Document of Title"? Give two examples, and explain how the Documents you describe facilitate the purchase and sale of goods. (*C.A., Inter.*)

10. A merchant quotes a price for goods c.i.f., which means that the price includes the cost of the merchandise, incidental charges, Insurance and freight. Name other similar kinds of prices commonly quoted for goods, and explain in each case the charges the prices include. (*London Chamber of Commerce, Certif.*)

11. What do you understand by "market analysis" in the marketing of goods abroad? Illustrate from the marketing of British goods in the United States of America. (*R.S.A., Stage III.*)

12. Consider the causes of the recent decline in the importance of the export merchant. Illustrate your answer with examples, and indicate the type of industry and of market to which a policy of "direct selling" is most applicable. (*R.S.A., Stage III.*)

13. You are prepared to sell 60 pieces Grey Cotton Rollering—1860 yards at $7\frac{1}{2}d.$ per yard, *ex* warehouse. What price per yard would you quote a Colombo buyer, c.i.f. Colombo, if the packing of 3 cases costs 12*s*. 6*d*. each; carriage to docks, 10*s*. 6*d*.; dock charges, 9*s*. 4*d*.; Bs/L 2*s*. 6*d*.; freight, £9 6*s*.; and Insurance a.a.r. from warehouse to warehouse could be effected at 15*s*. per cent., 8*s*. 9*d*.? (*London Chamber of Commerce, Certif.*)

14. Consider how far the branding of goods and advertisement abroad may be factors in finding new markets or retaining old markets abroad for British goods. (*R.S.A., Stage III.*)

15. Tabulate the charges on goods exported which a home manufacturer has to incur if he pursues a policy of direct exporting.

Under what circumstances is direct exporting likely to be economical, and when should a merchant shipper or a commission house be employed in preference? (*R.S.A., Stage III.*)

16. What expenses normally contribute to the cost of exporting goods from this country to foreign markets? (Take one market with which you are familiar as example.) (*R.S.A., Stage III.*)

17. How far do you consider that the nature of the market in which its product is to be sold should determine the policy of the management of a British industry manufacturing mainly for export? (*R.S.A., Stage III.*)

18. What is the difference between "open indents" and "specific indents"? Can you account for the recent marked increase of the latter in the export trade of this country? (*R.S.A., Stage III.*)

19. What are documents of title to goods? Name three documents of title and show how they may be transferred. (*London Chamber of Commerce, Certif.*)

20. How far, in your opinion, is it possible to further export trade in manufactured goods by the creation of co-operative selling agencies or other joint bodies? Is the position different in the case of raw materials? (*R.S.A., Stage III.*)

21. How is the organisation of a manufacturing business affected by the type of market in which its products have to be sold? Illustrate by reference to English and American examples. (*R.S.A., Stage III.*)

22. Define "Joint Adventure," and give an example. (*C.A., Inter.*)

23. In connection with the export trade, state fully what is meant by each of the following: (*a*) a Customs specification; (*b*) primage; (*c*) drawback; (*d*) debenture. (*R.S.A., Stage III.*)

24. What are the advantages and disadvantages from the trader's point of view of the system of deferred rebates as practised by shipping companies? (*R.S.A., Stage III.*)

CHAPTER 35

IMPORTING

IMPORT trade, like export trade, may be direct or indirect. While some manufacturers import their own raw materials, the bulk of imports into this country are made indirectly through professional importers. There are two main reasons for this. First, the majority of our imports are raw materials and food-stuffs, the marketing of which requires such highly technical equipment and specialised marketing organisation that it has long been the custom for these goods to be imported through the intermediary of middlemen who have the necessary knowledge and experience. Then, in the case of many *manufactured* imports, the foreign manufacturer extends his activities to this market by opening branch selling offices or by appointing sole import agents in this country.

Imports against Orders and on Consignment.

Imports of manufactured goods into this country are made principally "*against orders,*" whereas imports of food-stuffs and raw materials are made chiefly "*on consignment.*"

GOODS AGAINST ORDERS.—Imports which enter the country against orders will have been sent in response to precise instructions forwarded to the exporter abroad by a correspondent in this country. Such instructions will specify clearly the type of goods required, their quality and price, the mode of packing and shipping, and the port to which they are to be consigned—usually the port most convenient for their sale or for their transport to the importer's warehouse or works.

GOODS ON CONSIGNMENT.—These are goods sent by an individual or firm in one country to an agent in another country, with the intention that the latter shall sell them as well as he can and remit the proceeds, less his costs and commission, to the sender. The goods do not become the property of the agent, and his only interest in them is that he is employed to arrange the sale and to give an account thereof to the foreign owner.

By receiving goods on consignment a consignee incurs no liability other than the obligation to exercise reasonable care in their storage and sale, and to remit the proceeds, less his charges and commission, to the consignor.

Consignment business is more common in our import trade,

and especially in food-stuffs and raw materials, than in our export trade and in manufactured goods. There are several reasons for this. For raw materials there is a steady demand, providing employment for brokers and other intermediaries who arrange their sale at the produce markets on foreign account, and who are always prepared to deal in the commodities concerned. Such is the reputation and connection built up by these import merchants, and so excellent is the organisation of our produce markets, that many foreign exporters are induced to ship their goods here on consignment, in preference to arranging their own direct facilities for import and sale.

Manufactured goods, on the other hand, which are dependent upon changing fashion and fluctuating demand, and for which there is not such an assured market, do not lend themselves to similar treatment, and it is usual, therefore, for such goods to be marketed direct through actual agents or branches of the foreign exporting house. Moreover, the lack of reliable importers in many foreign markets has prevented English manufacturers from sending their goods on consignment. There are, however, occasions when a manufacturer is willing to send a consignment in the nature of a simple shipment to a reliable agent abroad, usually drawing upon the agent for part, at least, of its value.

Procedure on Importing.

Whether the goods are imported on consignment or against orders, the process is much the same. In either case, the sender of the goods (the exporter) is known as the *consignor*, and the recipient (the importer or selling agent) as the *consignee*.

The first stage of the transaction in the importing country is the receipt by the consignee of advice of shipment from the consignor. With this would come also the bill of lading, insurance policy, invoice and possibly also a weight note relating to the goods. Alternatively, if the importer's place of business is some distance from the port of discharge, the documents will be sent to the shipping company or to a shipping agent at this port, either of whom will arrange for the landing of the goods, for the completion of all Customs formalities and for the despatch of the goods to the importer, who will, of course, have to pay any charges made by the company or agent for their services.

If the goods are shipped on consignment, the invoice would be *pro forma*, that is to say, "for form's sake," and would simply serve to show what the shipper had paid in respect of the goods by way of cost and charges, or what he hoped or expected to receive for the goods (see illustration). Such an invoice, unlike an ordinary invoice, does not amount to a charge note for the goods. If payment for the goods or for the proceeds of sale were to be made by bill of exchange, this also would accompany the advice, and the consignee would be expected either to accept

or to pay the bill (according to the arrangement made with the exporter) before he could obtain the goods, in which case the bill of exchange, with the documents attached, would usually be presented to him for acceptance or payment through the agent of the exporter's bank.

PRO FORMA INVOICE.

INVOICE of *100 Chests Ceylon Tea* shipped per S.S. *Glenavy* for London, consigned to Order, for sale and account and risk of the undersigned.

	Chests.	Each.	Nett lbs.	Rupees Cts.
	100 Ceylon Tea	*95 lb.*	*9500 @ 35 cts. lb.*	*3325 00*
A 1–100	Shipping Charges			*210 10*
LONDON	Freight			*865 16*
	Insurance covered in Colombo.			
				Rs.4400 26

16th Dec., 19...

Lefrère & Co.,
Colombo.

Satisfying the Customs Authorities.

Apart from satisfying the shipping company respecting his right to receive the goods, the importer must carefully conform with the Customs formalities relative to the entry of all goods into this country. It is necessary to digress somewhat to explain these requirements, for, unless they are duly complied with, possession of the goods may not be obtained even though the importer can secure their release from the shipowner.

The British Customs organisation is regulated by the *Customs Consolidation Act*, 1876, and subsequent Finance Acts and special Acts.

These Acts prescribe, in what is known as an *Import List* or *Tariff*, the duties which must be paid on certain classes of goods imported into this country from abroad, together with the methods of collection, and the various formalities to be observed by persons exporting or importing goods, and by ships entering or leaving ports in the United Kingdom.

Excise Duties.

Closely related to Customs Duties are the so-called *Excise Duties*. These are of two kinds :—

(*a*) Duties on Commodities Manufactured or Produced within the Country.—Excise duties have long been imposed on such home-produced articles as artificial silk, beer, glucose, saccharine, matches, mechanical lighters, patent medicines, petroleum oils, playing

cards, spirits, table waters, tobacco, snuff and wines—all of which are subject to Customs duties when they are imported from abroad. In these cases the Excise duties are in the nature of *counteracting* or *countervailing* duties, *i.e.*, they are imposed to counterbalance the Customs duties on similar goods received from abroad.

Some of these imposts are *Specific Duties*, *i.e.*, they are assessed upon the weight of the goods; but in other cases *ad valorem* duties, assessed on the value of the goods, are imposed.

(*b*) LICENCE DUTIES, which are levied on persons in consideration of the grant of a licence to manufacture or sell certain goods or to carry on a certain trade or occupation. In this country the chief of these are the licences granted to appraisers and house-agents, auctioneers, solicitors, barristers, notaries, beer brewers and dealers, cider retailers, distillers, hawkers, money-lenders, motor-spirit dealers, patent medicine dealers, pawnbrokers, pedlars, plate-dealers, publicans, refreshment houses, keepers of stills and retorts, theatre proprietors, tobacco manufacturers and dealers and vinegar makers. Excise taxes also include those on carriages, dogs, game shooting, guns, hawkers, motor-cars, railways, and so forth.

Ship's Report.

As the first step in their supervision of goods entering this country from abroad, the Customs authorities require the master of every ship (other than a ship engaged in the coasting trade), within twenty-four hours of its arrival in a British port, to deliver to the local Customs authorities what is known as a *Ship's Report*, specifying the name of the ship, the port of registration and nationality, the port whence the ship has arrived, the name of the master and details of the crew, passengers and cargo.

No goods may be unloaded until this report has been delivered, and, if it proves to be false, or to contain a false statement, the master is liable to a penalty of £100.

If it is the intention to unload goods at more than one port in the British Isles, separate reports for each landing must be furnished.

Details of all dutiable stores belonging to the master of the crew must also be given, otherwise any goods not so reported are liable to be seized by the Customs officials.

A similar report, known as a "*Ship's Manifest*," has to be delivered when a vessel leaves port.

Entries by Importers.

The second step in the Customs supervision is the requirement that every importer of any goods brought into the country, or his agent, must furnish to the Customs officials a declaration (known as an "*Entry*") which must be completed in duplicate or triplicate, and must describe the goods in sufficient detail to enable them to be clearly identified. The particulars on the Entry must agree with the relative details given in the Ship's Report, and must state the name of the ship from which the goods are to be unloaded, the master's name, the port of shipment, and the berth or station where the ship is lying. Only if everything is in order can the goods be landed. This must in any case be within twenty-one days of the ship's arrival, but the goods must not be dealt with in any way until the Customs officials have examined and released them.

Goods imported are classified as either *free* goods, *i.e.*, not subject to duty, or *dutiable* goods, *i.e.*, subject to customs duty.

Procedure for Release of "Free Entry Goods."

(1) The importer must prepare two (or, if the goods are imported *via* the Port of London, three) copies of the "*Free Entry*" or "*Entry for Free Goods*" form, and present them at the proper desk at the Custom Houses (see specimen on page 535).
(2) The Customs officials compare the particulars on this form with the Ship's Report and, if the entries agree with those in the report, the forms are initialled as correct and one copy is handed back to the importer.
(3) The importer lodges this copy with the dock authorities, who pass it to the superintendent of the dock where the goods are to be landed.
(4) As soon as the goods are landed, the wharf foreman gets one of the Customs officials in attendance to check the entries on the spot. If correct, the officer signs an "*Out of Charge Note*," and thus authorises the dock authorities to release the goods.

Procedure for Release of Dutiable Goods.

To secure the entry of dutiable goods for immediate home use, the importer must complete two forms of "*Entry for Home Use ex Ship*" (see page 537)—an original and a copy. These forms must contain particulars regarding the marks, numbers, net weight or quantity of the goods; and must state, to the best of the importer's ability, the amount of duty for which they are liable.

The forms are presented at the Customs House in the same way as are entries for free goods, and when the officials have

No. 28 (Sale).

ENTRY FOR FREE GOODS

This space is for the use of the Officers of Customs and Excise.	Port of Importation Dock or Wharf of Discharge Place of Examination Importer's Name and Full Address (a)	Ship's Rotation No. 193	Collector's No. and Date.

Examination	Ship's Name	Ship's Nationality (b)	Date of Report	Port or Place of Foreign Loading			
	Marks and Nos.	Number and Description of Packages and Description of Goods, in accordance with the current Official Import and Export List	This column for Official use only	Net Quantity (in figures)	Value (c) £	Name of Place whence goods consigned (d)	Country of Origin of Goods (e)

I enter the above Goods as free of Duty, and declare the above particulars to be true

Dated this day of 19 } Signed

Importer or his Agent.

NOTES.

(a) The Importer is the owner or other person for the time being possessed of, or beneficially interested in, the goods at and from the time of their importation until they are delivered out of the charge of the Officers of Customs and Excise.

(b) Ships registered in the Colonies and dependencies of a country, as well as ships registered in that country, should be shown as of the nationality of that country. All ships wherever registered as British, including those registered in the Dominions, should be shown as British.

(c) The value of goods to be declared on Customs entries is the open market value as defined for the purpose of *ad valorem* duties by Section 10 of the Finance Act, 1935, to which reference should be made. Briefly stated this open market value required for imported goods is the price which the goods would fetch on a sale in the open market at the time of importation, if the goods were delivered to the buyer at the port or place of importation, freight, insurance, commission and all other costs, charges and expenses incidental to the making of the contract of sale and the delivery of the goods at that port or place (except any duties of Customs) having been paid by the seller.

(d) The country of consignment is the country from which the goods were originally despatched to the United Kingdom, with or without breaking bulk in the course of transport, but without any commercial transaction in any intermediate country. It is not necessarily the country of shipment, origin or manufacture.

(e) The country of origin is to be inserted, where it differs from the country whence consigned, in the case of all goods in Class I. (Food, Drink and Tobacco) and Class II. (Raw Materials and Articles mainly unmanufactured) of the Import and Export List, and for pig-iron, ferro-alloys, ingots other than special steel, and blooms, billets and slabs other than special steel. The country of origin for this purpose is the country in which the goods were produced in the condition in which they are imported.

checked all the entries and verified them, the duty is paid and one of the forms is initialled. This is called the "*Prime Entry*."

The initialled copy is lodged with the dock authorities, for delivery to the landing wharf, where it will eventually be checked against the actual goods by a Customs official. If the details given in the forms regarding weight or value are in any way incorrect, the amount of duty may require adjustment. No notice is taken of errors involving amounts of less than a shilling, but if the duty has been underpaid a shilling or more, the importer will be required to pass a "*Post Entry*" for the additional quantity and amount. This, with the Prime Entry, will obtain release. If more duty has been paid than was necessary, an "*Over Entry Certificate*" is issued, which enables the importer to obtain the necessary refund.

It should be noted that the form on page 537 is used for goods subject to specific duties only. For goods subject to *ad valorem* duties different forms are used, and, in addition, the importer must furnish a certificate declaring the accuracy of the invoices presented with the entry.

Bill of Sight.

Where the importer has not received sufficient information concerning the goods to complete his form of entry, he obtains from the Customs authorities a *Bill of Sight*, which gives him permission to examine the goods in the dock in the presence of a Customs officer, and also itself constitutes a landing authority. Within three days the importer must "perfect the sight" of the goods by sending in the Bill of Sight indorsed with a statement showing (*a*) whether the goods are subject to duty; and (*b*) if the goods are subject to duty, whether they are for warehousing or for immediate use. Thus the Bill of Sight is, in effect, converted into the necessary entry, and it may cover both free and dutiable goods.

If a perfect entry is not made, the goods are removed to the King's Warehouse, where they may be sold one month after landing, if a proper entry has not been made within that time.

Securing Release of the Goods from the Shipping Company.

In order to get the goods from the shipping company, one of the bills of lading must be presented at the company's office, if there is one at the port, or, if not, to the shipbroker who acts as the company's agent and arranges the berthing, unloading and clearing of its vessels, as well as the disposal of cargo and the receipt of freight charges. Before taking the bill of lading to the shipping company or its agents, however, the consignee must ensure that the shipper has indorsed the bill if it is made "to order"; and in any case the consignee himself must indorse it.

No. 22 (Sale) (Short).

Class and Group

Ship's Rotation Number 193

Port of Importation

ENTRY FOR HOME USE EX-SHIP OF DUTIABLE GOODS NOT LIABLE TO AD VOLOREM OR KEY INDUSTRY DUTIES.

Collector's No. and Date.

Name and full address of *Importer* ...

Merchant paying the duty ...

Dock or Wharf of Discharge ... *Place of Examination* ...

Previous Prime Entry (if any) No. ... dated ... 19 .

Ship's Name	Ship's Nationality (a)	Date of Report	Port or Place of Foreign Loading

Marks and Numbers	For Official Purposes only	Current Official Import and Export List Description and Number of Packages and Quantity in Words.	Name of Place whence Goods Consigned (b)	Country of Origin of Goods (c)	Net Quantity of Goods (in Figures)	Full Import Value (c.i.f.) (d)	Quantity of Dutiable Content	Rate of Duty	Amount of Duty £ s. d.	Place and Country of destination in Gt. Britain or N. Ireland for Unmanufactured Tobacco and Spirits only.

	Initials.		
Calculations checked ..	....	Total amount of Duty payable on this Entry ...	£
Entry examined	....		

I declare the above particulars to be true.

Date ... 19 . (*Signed*) ...

Importer or his Agent.

NOTES

(a) Ships registered in the Colonies and dependencies of a country, as well as ships registered in that country, should be shown as of the nationality of that country. All ships wherever registered as British, including those registered in the Dominions, should be shown as British.

(b) The country of consignment is the country from which the goods were originally despatched to the United Kingdom, with or without breaking bulk in the course of transport, but without any commercial transaction in any intermediate country. It is not necessarily the country of shipment, origin or manufacture.

(c) The country of origin is to be inserted, where it differs from the country whence consigned, in the case of all goods in Class I. (Food, Drink and Tobacco) and Class II. (Raw Materials and Articles mainly unmanufactured) of the Import and Export List, and for pig-iron, ferro-alloys, ingots other than special steel, and blooms, billets and slabs other than special steel. The country of origin for this purpose is the country in which the goods were produced in the condition in which they are imported.

(d) The value of goods to be declared on Customs entries is the open market value as defined for the purpose of *ad valorem* duties by Section 10 of the Finance Act, 1935, to which reference should be made. Briefly stated this open market value required for imported goods is the price which the goods would fetch on a sale in the open market at the time of importation, if the goods were delivered to the buyer at the port or place of importation, freight, insurance, commission and all other costs, charges and expenses incidental to the making of the contract of sale and the delivery of the goods at that port or place (except any duties of Customs) having been paid by the seller.

If the freight was not paid in advance by the consignor, it will now be demanded by the shipping company, and, when this and any other charges on the goods have been paid, the company or its agent will issue in favour of the importer a "*Freight Release*" or a "*Ship's Delivery Order*," which is an authority addressed by the company to the master porter or superintendent in charge at the dock where the goods have been landed, instructing him to deliver the goods to the person named. The document gives particulars of the goods, specifies their marks, the number of packages, the contents and the name of the vessel.

SHIP'S DELIVERY ORDER.

The British Mail Steamship Company Ltd.

TO THE MASTER PORTER, VICTORIA DOCK, LONDON.

Please deliver to *Messrs. M. Field & Co.* the goods described hereunder, ex S.S. *Mandala* from *Mombasa* :—

Marks and Numbers.		Number and Description of Packages.	Contents.
NP	*1/50*	*50 packages*	*Coffee beans*

The shipowner will not be responsible for damage, or loss caused by fire, theft, weather or otherwise to any goods lying on the Quay or in any Quay Shed. Such goods are entirely at the risk of the owner or consignor.

per pro
British Mail Steamship Company Ltd.
JAMES BROWN,
Agent.

In some cases, the company or its agent will stamp the "release" on the back of the bill of lading, thus :—

To the Superintendent, Colonial Wharf.

Subject to safe arrival, please release the goods detailed in the bill of lading on the back hereof.

For Oriental S.S. Co. Ltd.
(Sgd.) *J. BLACK.*

10th Jan., 19..

On presenting the delivery order or freight release to the dock superintendent or to the master porter, and on payment of any charges or dock duties which are demanded by the harbour authorities, the person collecting the goods will be given

possession of them against his signature on the delivery sheet or in the delivery book kept at the dock offices. The recipient should, of course, be most careful to ensure that his acknowledgment is suitably qualified if the goods are not in proper condition, *i.e.*, by stating against his signature that one or more cases are broken, or that the packing is torn, goods exposed, etc.

Delivery against Sub-Orders (Split Consignments).

If the goods are to be split up amongst a number of recipients, the importer will forward the delivery order direct to the dock superintendent, with instructions to deliver the goods against his "Sub-Orders." The latter will then be issued as required in favour of the various people who are to take away the goods, and must be presented to the superintendent before the respective packages can be removed.

Landing of Bulk Goods.

Imports received in bulk and not in packages, *e.g.*, sand, iron ore and coal, have to be weighed when they are landed from the ship, and for this purpose they may be transported in railway trucks, lorries or carts, which are weighed under the general supervision of the dock authorities both before and after loading. The difference between the weight before loading, *i.e.*, the *tare*, and the weight after loading, *i.e.*, the *gross weight*, gives the *net weight* of each load, and is duly recorded on a *Weight Note* for the benefit of the importer. Frequently, the tare weight of the wagon, lorry or cart is clearly painted thereon, with the object of avoiding continual weighing as different loads are taken, and in such instances this weight is accepted as correct without actual confirmation by weighing.

Certificate of Indemnity.

Occasionally, importers find that goods have arrived for them before they have received the relative bills of lading. In such circumstances they can usually get possession of the goods if they can establish a fair claim to them by showing correspondence and giving a *Certificate of Indemnity*, signed jointly by themselves and their bankers. The following is a specimen :—

CERTIFICATE OF INDEMNITY.

19th December 19...

To

THE BRITISH MAIL STEAMSHIP COMPANY LIMITED.

Gentlemen,

In consideration of your delivering to *Messrs. M. Field & Co.* *50* packages of *Coffee* marked or addressed *N.P.* which have arrived from *Mombasa* by your steamer *Mandala* without the production of the Bill of

Lading or Parcel Ticket for said merchandise, which has not yet come to hand, we hereby undertake to procure for and deliver to you the said Bill of Lading or Parcel Ticket, and to hold you and your Servants and Agents harmless, and indemnified against all claims which may be made upon you or them, and against all losses, costs (as between Solicitor and Client) damages and expenses which you or they may suffer or be put to by reason of the delivery of the said Goods to us, and we further undertake to produce and deliver to you the Bill of Lading or Parcel Ticket for the above Goods, duly indorsed, within two months.

We are, Gentlemen,

Yours obediently,

per pro *Smith & Co. Ltd.*

W. HOWARD.

Director.

6*d.* Stamp.

We join in the above guarantee.

per pro *The Foreign Trade Bank Limited.*

J. BROWN,

Manager.

Entry for Warehousing.

Dutiable goods imported into this country and not wanted for immediate consumption are taken to approved storehouses and vaults established in the principal ports, where they are stored under Customs surveillance until the duty thereon is paid or secured. The owners of such warehouses are required to give a "bond" to the Customs authorities undertaking that the goods shall not be removed from the warehouse until the necessary duties have been paid. If the goods are to be warehoused at a place other than the port of arrival, the importer must give a bond for double the amount of the duty.

Goods taken into bond include wines and spirits, tea, coffee and tobacco; and as many thousands of pounds worth of these commodities are usually left in the warehouses, arrangements are made whereby they can be prepared by the wharfingers for sale in accordance with the owner's instructions, *i.e.*, they are sorted, tared and weighed and generally dealt with as if they were in the owner's possession (see Chapter 22).

To enable him to deposit goods in a bonded warehouse, an importer must prepare what is known as an *Entry for Warehousing* as well as a *Landing Order.*

The Entry for Warehousing differs little from the Entry for Home Use ex Ship. It does not state the duty payable, since the goods may be taken out in small quantities, but it requires the importer's name and address and a statement of the warehouse in which the goods are to be stored. After the entry has been examined by the Customs officer the *landing order* is signed by him and is sent to the place where the goods are lying. On receipt of this, the Customs authorities allow the goods to be delivered to the named bonded warehouse in a locked van (*i.e.*,

"under bond"). The expense of conveying the goods to the warehouse is borne by the importer.

Once the goods have been deposited in the bonded warehouse the importer can obtain delivery for home consumption by paying the duty and delivering to the Customs officer a "*Warrant*" certified by the warehouse-keeper. Different warrants are used for dry goods and wet goods; whilst goods for exportation need a form different from that used in connection with goods for home consumption.

It is possible that the importer may want to deliver various portions of his goods to different persons. In that case he will deposit the warrant with the warehouse-keeper and issue *delivery orders* (see Chapter 22) against it. In any case he will usually pay duty only on that portion of his goods which he has already sold.

The question whether goods shall be entered "for Home Use" or by "Warehousing Entry" depends on whether the goods are required immediately. If they are, then the former procedure will probably be followed; if not, the goods will probably be warehoused, so as to avoid payment of the duty until the goods are required.

The import duty on coffee and dried fruits is payable on the weight ascertained immediately after landing, but as tobacco loses weight while in process of drying in bond, it is re-weighed and duty is paid on the weight as then ascertained. Wines and spirits which evaporate are also re-gauged immediately before the duty is paid. The duty on spirits is assessed on the basis of a standard strength called *proof*, and an adjustment of the rate of duty is necessary where the spirits are over or under proof.

Re-exporting.

Those goods which, for the convenience of the importer, have been stored in a bonded warehouse pending payment of the Customs or Excise duties, can be exported without payment of the duty provided the following formalities are complied with :—

A *Bond*, undertaking that the goods will be properly exported or otherwise accounted for to the Customs authorities and signed by the exporter (or his agent) and a surety, must be executed in the presence of a Customs Officer. In case of default the signatories are liable to a penalty of twice the amount of the duty involved. A *General Bond* is a similar instrument, except that instead of covering one particular transaction, it is operative for any number of shipments covered by the penalty stated in the Bond.

A signed *Bond Note* is then obtained from the Customs Bond Clerk in exchange for the Bond. On the reverse side of the bond note are recorded particulars of the goods to be exported

and a *Warehousekeeper's Order*, requiring the warehousekeeper to deliver the goods, which is signed by an officer of the Warehousing Department of the Custom House. A *Shipping Bill* is now preparedand forwarded to the Customs Officer on board the exporting vessel, informing him of the goods which are being shipped.

All these documents are then handed to a licensed carman or lighterman, who gives them up in exchange for the goods. The subsequent procedure is as already described.

Transhipment.

In some cases goods may have been purchased from abroad for re-export and it may be possible to tranship the goods from one vessel to another without the necessity of first warehousing them. This procedure can be carried out only at certain ports, *e.g.*, Glasgow, Goole, Grimsby, Hartlepool, Hull, Leith, Liverpool, London, Newcastle, Poole, Southampton and Swansea. All such goods must be specifically indicated as " in transit " in the ship's report.

If the goods are not subject to duty, the importer must fill in an " Entry for Free Goods in Transit on Through Bill of Lading," together with a " Specification for Foreign and Colonial Goods Free of Duty in Transit on Through Bill of Lading " ; the first of these documents serves as a warrant to authorise unloading, and the latter is necessary to comply with the export formalities.

When the goods are liable to duty they must be entered on a " Transhipment Delivery Order " and a " Shipping Bill for Transhipment Goods only." The goods are exported under bond, and a " Bond Note for Transhipment and Exportation " must therefore be filled up and signed by the importer. Once the bond is executed, the Clerk of the Bonds will add his signature, thus authorising the removal of the goods (subject to the survey of a " watcher ") direct to the exporting ship.

Customs and Excise Drawback.

Customs and excise duties are levied only on goods for home consumption. Consequently, when goods on which excise duty has been paid are exported, or when goods which have been subjected to customs duty are re-exported, the exporters and re-exporters respectively would be handicapped were it not that they are entitled to a refund or return of the duty paid by them. This allowance is known as *Excise Drawback* in the first case, and as a *Customs Drawback* in the other.

When goods entitled to drawback have been entered and shipped for export, a certificate known as a *Customs Debenture* is issued by the Customs authorities, on which the exporter declares that the goods have actually been exported and are not intended to be relanded in the United Kingdom.

Preferential Duties : Safeguarding Duties.

Where goods of Empire origin are admitted at a reduced rate of duty, the claim for preference must be supported by a Consular Certificate of Origin certifying the place of origin or manufacture of the goods.

Safeguarding Duties (see page 371) are payable on importation, and it is not possible (except in the case of certain chemicals) to defer payment by placing the goods in bonded warehouses unless the goods are subject to other Customs duties.

Prohibited and Restricted Imports.

There are certain classes of goods whose import into this country is absolutely prohibited. Such goods are usually of an injurious nature or of a type the import of which would involve a contravention of the law, *e.g.*, lottery advertisements and notices, obscene pictures or publications, infected cattle and sheep, and books of which the copyright vests in some citizen of the United Kingdom.

The import of other classes of goods is subject to certain conditions and restrictions. For example, explosives may be imported only under licence, and subject to the fulfilment of various conditions regarding the method of packing. Saccharine can be landed only at approved ports, and must be packed in parcels containing not less than eleven pounds each.

Re-importation of Goods Exported.

Where *British* goods are exported and within five years are re-imported, they are entered by "*Bill of Store.*" The importer must furnish satisfactory proof of the original shipment and, if the goods can be identified, they will be released free of duty on repayment to the Customs of any drawback or other allowances which were granted when the goods were exported.

Overside Delivery of Goods.

Not all ships berth alongside a dock to discharge cargo, although with the improvement of docks this practice has become usual. But, even when this is done, vessels often discharge their cargo from both sides, *i.e.*, from one side on to the dock and from the other side on to barges or lighters.

This *overside delivery*, as it is called, is an important factor in unloading, because lighter transport to other wharves, or by connected canals to inland towns, is much cheaper than land transport. But the lightermen are governed by the same rules as dock companies, and they must have the Customs release for goods before they can obtain delivery of goods from the ship or remove them from the dock.

Some lightermen are "bonded" as well as licensed, *i.e.*,

they have authority to move goods still in bond to bonded warehouses at places which their barges are able to reach. Such removals must, however, be made under the supervision of a Customs *watcher*, for whose services the importer has to pay. An alternative to using the services of a bonded lighterman is to use those of a *bonded carrier*, who transports the goods in special vans or lorries. The Customs authorities require either a *Lighter Note* or a *Cart Note* to be made out for goods removed in this way.

Procedure on Release of Goods.

Having now briefly reviewed the various Customs formalities which have to be attended to by the importer, we may consider the typical example of the import of goods on consignment such

IMPORTER'S ACCOUNT SALES.

Account Sales of *100 Chests of Ceylon Tea* ex S.S. "*Glenavy*," sold for account of *Messrs. Lefrère & Co.*, by the Undersigned.

Sale *17th Feb.*, 19... Prompt *15th May*, 19....

Marks.	Chests.	Description.	Weight.	@	£ s. d.
A 1–100	20	Ceylon Tea	1900 lb.	9d.	71 5 0
	40	" "	3800 "	$9\frac{1}{2}d.$	150 8 4
	40	" "	3800 "	$10d.$	158 6 8
	100		9500 "	$9\frac{5}{8}d.$	£380 0 0

	£ s. d.	
Expenses of Sale	19 6	
Brokerage $\frac{1}{2}$ per cent. ..	1 18 0	
Warehousing	7 10 0	
Insurance £400 at $\frac{1}{8}$ per cent.	10 0	
Dock Dues, Wharfage and Cartage	2 3 5	
Samples	15 0	
Interest on £14 for three months at 5 per cent.	3 6	
Commission $1\frac{1}{2}$ per cent. ..	5 14 0	
		19 13 5
		£360 6 7

London, *18th Feb., 19....*

E. & O. E *Richards & Cron Ltd.*

as that referred to in the specimen *pro forma* invoice on page 532, relating to an import of tea from Ceylon.

The required entry having been made the Custom House and the approved copy having been presented at the dock, it is probable that the tea would be placed in a bonded warehouse and that the importers would give instructions to a firm of

brokers to sell the consignment at the London Commercial Sale Rooms in Mincing Lane. The method of procedure in this, and other organised markets, has already been explained in general terms, and we are here concerned only with the result of the sale.

The expenses of warehousing would be paid by the importer, who would receive from the selling broker a Contract Note showing the prices at which the tea had been sold, together with his expenses and brokerage. The amounts due from the buyers will be paid directly to the importer at the due date, or *prompt*, as it is called, whilst the brokerage and sale expenses will be paid by the importer to the broker immediately. On his disbursements the consignee (the importer) will charge interest against the consignor, together with commission on the gross sales amount.

All of these details are included in an *Account Sales* which is prepared by the importer and forwarded to the exporter. Payment of any balance outstanding may be made either by the consignee's sending a remittance, or by the exporter drawing a bill of exchange upon the importer for the net amount of the Account Sales, which would appear in the form on the preceding page.

QUESTIONS BEARING ON CHAPTER 35

1. Define charter party and bill of lading. How is the latter transferred, and what difficulties may arise in practice in such transference? *R.S.A., Stage III.*)

2. Explain: ship's protest; mate's receipt. (*London Chamber of Commerce, Higher Certif.*)

3. What is a common land carrier, and what is the general nature of his liability? Distinguish between a charter party and a bill of lading; and explain what limits have been put to the liability of a carrier by sea. (*R.S.A., Stage III.*)

4. Describe the importation into and distribution in this country of foreign-grown perishable food-stuffs. (*R.S.A., Stage II.*)

5. Which is more convenient in the wholesale purchase of foreign manuactured goods—to buy from English agents of the foreign firms, or to buy direct from the foreign country? (*R.S.A., Stage III.*)

6. What considerations would influence a wholesale dealer in deciding to buy direct from foreign producers rather than from English agents of these foreign firms? (*R.S.A., Stage III.*)

7. Describe the procedure in regard to the importation of foreign manufactured goods by a firm at an interior point (*e.g.*, Birmingham) in England from the arrival of the ship in port, and describe the documents (other than those connected with finance) involved in the procedure. (*R.S.A., Stage III.*)

8. You, an English importer, receive an order from a motor dealer in London for ten French cars of a special make not available in England.

Describe the transaction in detail, with reference to all relevant documents, from the time you receive the order to the time the cars are ready for delivery to your customer. (*R.S.A., Stage III.*)

9. In connection with "shipping" explain :—
   (1) Bill of Lading.
   (2) Demurrage.
   (3) Lay Days.
   (4) Charter Party ; and state the two kinds of Charter Party. (*C.A., Inter.*)

10. What is a Charter Party ? Name two kinds of Charter Party, and explain the terms "Lay Days" and "Demurrage" used in these documents. (*C.A., Inter.*)

11. Distinguish between a charter party and a bill of lading. What are the functions of a bill of lading ? Is it a negotiable instrument ? (*London Chamber of Commerce, Higher Certif.*)

12. Discuss the importance of "consignment" business in the import and export trades respectively. (*R.S.A., Stage III.*)

13. Describe the procedure that has to be followed in the importation of duty free foreign manufactured goods into this country, and consider the circumstances under which bills of lading are best made out "to order." What is the object of drawing up bills of lading thus ? (*R.S.A., Stage III.*)

14. What are "bonded warehouses" ? Describe how the marketing of dutiable goods is facilitated by their use. (*R.S.A., Stage II.*)

15. What is the procedure followed by a merchant when importing dutiable goods, delivery of which is taken at the ship's side ? (*London Chamber of Commerce, Certif.*)

16. Examine the purposes served by bonded warehouses (*a*) from the point of view of the Government ; (*b*) from the point of view of a merchant importing dutiable goods. (*R.S.A., Stage II.*)

17. Distinguish, with examples, between Customs and Excise Duties. What is Drawback, and how is it paid ? (*London Chamber of Commerce, Higher Certif.*)

18. Describe, noticing the relevant commercial documents, the importation of a dutiable commodity which passes through a bonded warehouse in the process. (*R.S.A., Stage II.*)

19. What difficulties are met with in the valuation of imported commodities subject either to *ad valorem* or to specific duties ? How are disputes settled in connection with such valuation ? (*R.S.A., Stage III.*)

20. Outline the methods adopted by the Government to obtain a true record of all goods entering this country and to ensure the payment of customs duties where these latter are exacted. (*R.S.A., Stage III.*)

21. Explain the steps that an importer has to take to get possession of dutiable goods that are consigned to him from abroad. (*C.A., Inter.*)

22. What are (*a*) Customs Duties, and (*b*) Excise Duties ? How are they levied, and how do they affect the trade of the country ? (*S.A.A., Inter.*)

PART VI

THE WHEELS OF COMMERCE

CHAPTER 36

MONEY AND ITS FUNCTIONS

In the early stages of man's development, the exchange of goods was effected by a system of barter. The hunter who had more meat than he required for his and his family's immediate needs might exchange some of his surplus for some of the surplus fish of the fisherman or the wool of the herdsman. Among primitive races, a system of barter may be carried on successfully, but as man's wants become more varied with the development of civilisation, certain difficulties are experienced.

The Difficulties of Barter.

First of these difficulties is the *want of coincidence.* Barter implies a double coincidence of wants and possessions; the man who wishes to exchange meat for skins must find another who desires to obtain meat and has skins to offer. Under such conditions exchange is obviously a matter of considerable difficulty.

Secondly, there is the *want of a measure of value.* Under a system of barter it is difficult to decide what quantity of one article may fairly be exchanged for another; for example, how much fish shall exchange for a given quantity of fresh meat. If, however, the value of each commodity is expressed in terms of another commodity which is chosen to serve as a *common measure of value,* it is easier to determine on what basis the exchange of two commodities shall be made.

Thirdly, there is the *difficulty of subdivision.* Grain or meat may easily be split up, but a coat which has to be exchanged cannot be divided without loss of value, and, if it is to be transferred, someone must be found who is willing to give in exchange for it something of equivalent value.

Fourthly, there is the *perishability of commodities.* If the article possessed in excess cannot be readily disposed of, its power to be exchanged for something else may diminish or be lost entirely, *e.g.*, cattle die and wheat rots. Some means must be found whereby exchange value can be conserved over fairly long periods.

To obviate these difficulties, a system has been evolved by which some commodity, which we call *money,* is chosen to act

as a *medium of exchange* between other commodities. By the intervention of money, barter gives way to a system of sale and purchase whereby one article is exchanged for another, which may be held as long as the holder pleases, and is eventually utilised to purchase something else which is required for consumption.

Definition of Money.

Money may therefore be defined as "*a commodity chosen by common consent to be a measure of value and a means of exchange between all other commodities.*" The commodity used as money must be generally accepted within the community in exchange for goods and services and in final settlement of obligations. Although money may exist in countless forms, its universal purpose is that it shall be used, either now or in the future, to command in exchange for itself the labour or the product of the labour of others. Money, therefore, is merely a means to an end, held temporarily, not for its own sake, but in order to obtain other articles or to command the services of others. It enables the consumer to generalise his purchasing power, and to make his claims on other members of the community at the time and in the form which suit him best. It eliminates the waste and inconvenience which attend a system of barter, and ensures that anyone with the means of enjoyment may obtain actual enjoyment with the minimum of trouble and delay.

This definition of money applies strictly to *standard money*, the commodity which serves as a standard of value and a unit of account. But the unqualified term "money" may be used to include *anything which is widely used and accepted as a means of exchange.* A thing may be regarded as money even though it cannot function as a standard of value, *provided that it is expressed in terms of the standard.* Thus, cheques and bills of exchange are regarded as money so long as they are freely accepted in payment for goods or in discharge of debts. "Money is as money does," and all media of exchange are effective money so long as they facilitate exchange and actually do the work of money. When the term "money" is used in this wide sense, the term *currency* is used to denote those forms of money which are issued by the State, or whose circulation is enforced by the State. A pound note, for example, is currency, but a cheque is not.

The Functions of Standard Money.

Briefly, then, the commodity used as standard money must be capable of serving as :—

1. A Medium of Exchange, universally accepted in exchange for other commodities. Its possession must enable its owner to obtain satisfaction of his wants without difficulty.

This function can be efficiently discharged by *any form* of money, but the thing that serves as the standard of value must also perform three other functions if it is to serve the community in all respects.

2. A Measure of Value, by which the values of other commodities are compared in terms of their money prices.
3. A Store of Value, so that wealth may be set aside for future use without fear of loss or deterioration.
4. A Standard of Deferred Payments, by means of which payment of an equivalent value can be obtained at a future date for a loan or exchange made now.

The Qualities of a Good Standard Money.

A good money material must have certain characteristics. It is because these qualities are present to a large extent in gold and silver that these commodities have come to be so widely used as media of exchange. The following are the principal requisites of a good money material :—

1. Acceptability.—The material must be such that anyone will take it without hesitation in exchange for goods and services.
2. Stability of Value.—If money is to serve satisfactorily as a store of value, it must not be subject to violent fluctuations in demand or supply that would cause frequent changes in its value.
3. Portability.—A good money material must be of relatively high value for its bulk so that a purchaser can conveniently carry with him sufficient money to enable him to effect his normal purchases.
4. Durability.—The material must be durable if the coin is to last for any reasonable period and if it is to be capable of transport over long distances without deterioration.
5. Homogeneity.—The material must be uniform in quality so that the value of two portions of equal size shall be the same.
6. Divisibility.—The material must be capable of division without difficulty so that coins of any denomination are of uniform quality and of value as material in proportion to their weight. The material must also be capable of being melted down and reunited without loss.
7. Cognisability.—The material must be easily recognisable and distinguishable from other materials so that genuine money may easily be distinguished from counterfeit.

Gold, which used to be the accepted standard money in most countries of the world, possesses all these qualities in a marked degree and is pre-eminently capable of fulfilling the functions of standard money. Nowadays, however, its place as *a medium of exchange* for *internal* purposes is taken by paper money, and gold itself is used mainly for the settlement of international balances of indebtedness.

Paper Money.

When properly controlled, paper money can be made to function excellently as a medium of exchange. It is extremely portable and convenient, and, while it is not very durable, it can be replaced at very little cost. Intricate designs and elaborate watermarks give it ready cognisability and render forgery extremely difficult. On the other hand, paper money, unlike metallic money, has no material worth of its own, its value being dependent upon the supply relative to the number of exchanges to be effected by its use (see below, QUANTITY THEORY OF MONEY).

Paper money is usually issued by the State, although in many countries it is issued by private banking institutions which are subject to legal control. But, whatever the conditions of its issue, paper money will always fall into one of two broad classes according to whether it is *convertible* or *inconvertible.*

Convertible Paper Money.

Convertible notes are those which are legally exchangeable on demand for a fixed quantity of the standard metal. Bank of England notes, before 1914, represented a perfect example of a strictly convertible currency, being legally exchangeable for gold coin; they were recognised everywhere as being as good as gold, and enjoyed world-wide acceptability. It is obvious that when notes are freely convertible into gold, whether as coin or as bullion, their value must be identical with that of the gold which they represent.

Inconvertible Paper Money.

Inconvertible notes are those which give the holders no legal right to demand conversion into metal. Their value depends on the prudence of the issuers, and the temptation to over-issue is very great, especially in time of war or other national catastrophe, when a government can seldom resist the temptation to meet its obligations by merely printing notes. Moreover, such a currency is almost useless for international trade if confidence is lost in the issuers. Nevertheless, even inconvertible notes may serve as good money if the issue is carefully regulated according to trade requirements, though governments have rarely shown any great aptitude for managing

inconvertible paper currencies. The great advantage of convertibility is that it places an automatic check on over-issue.

Coinage.

The earliest form of metallic money consisted of lumps of bullion, which were measured by weight, and had to be tested for fineness, *i.e.*, the proportion of the pure metal to alloy. The fineness and weight of metallic money are now certified by impressing a recognised design on the metal, and any alteration in the standard weight or fineness can be easily detected. A piece of metal so impressed is known as a *coin*, which may be defined as a piece of metal used as a medium of exchange, stamped by the issuing authority and generally accepted without immediate reference to its weight or fineness.

MINTAGE OR BRASSAGE is a charge made by a mint to cover the expense of converting bullion into coins.

SEIGNIORAGE is a toll exacted by the issuing authority, by retaining a proportion of the metal taken for coinage over and above the expenses of coinage, and substituting alloy in the coined metal. As neither charge is made nowadays in this country, the gold coinage (which, incidentally, exists only in name) is said to be "*gratuitous*," *i.e.*, free of charge. The term "*free*" *coinage* implies that *anyone* may have bullion coined at the Mint without any restrictions as to quantity.

A REMEDY ALLOWANCE is a narrow limit to variations in the weight or fineness of coins. In the case of British currency a remedy allowance is permitted of two-tenths of a grain in the weight of a sovereign, and 2 parts in 1000 in the fineness.

FINENESS is the proportion of pure metal to alloy in the coin. Thus the British sovereign is made of *standard gold* eleven-twelfths fine, *i.e.*, gold which contains eleven parts of pure gold to one part of alloy. In other countries the standard gold is not as pure as ours. Thus French standard gold is 900 fine, *i.e.*, it contains 900 parts of pure gold out of every 1000.

TOKEN COINS are those which are worth more as coins than as bullion. They are necessary because gold is too expensive for small coins, and they retain their exchange value because they are legal tender up to a certain amount and are therefore generally acceptable. In this country all our coins of silver and bronze are token.

LEGAL TENDER is that money which can be legally offered in final discharge of a debt and cannot be refused by the creditor. It is because paper money is legal tender that it has value as money, although it has no value as material.

UNLIMITED LEGAL TENDER denotes money which can be tendered up to any amount, whilst LIMITED LEGAL TENDER is that money which can be offered in final discharge of debts up to a certain amount only.

Monometallism and Bimetallism.

The many forms of metallic monetary standards which have existed at various times may be classified roughly under two headings: bimetallic and monometallic standards.

BIMETALLISM implies (*a*) the adoption of coins of two metals —usually silver and gold—both of which are legal tender for any amount at a fixed ratio to each other; together with (*b*) equal facilities for the coinage of each metal. Bimetallism thus involves a *Double* or *Multiple Legal Tender System*, but though it was at one time in general use on the Continent, it is now obsolete.

MONOMETALLISM involves the adoption of one metal only as the standard, with, possibly, token coins of various other metals which are not legal tender, *i.e.*, a *Single Legal Tender System*, such as existed in England until 1816, when silver was the only standard coinage. The present English system is not strictly a monometallic one, since silver and bronze coins are legal tender up to a certain limit, but their issue is restricted to the amount required as small change. The system is consequently known as a *Composite Legal Tender System.*

Gresham's Law.

Governments of the past often failed strictly to control the currency, and this resulted in the circulation of coins which were much worn, clipped and debased, and were of varying design and weight. Fresh issues of full-weight coins were made, only to disappear immediately, leaving the old light-weight coins in circulation and effecting no improvement in the currency.

This state of affairs received the attention of Sir Thomas Gresham (1519–1579), founder of the Royal Exchange and financial adviser to Queen Elizabeth, who propounded what is known as *Gresham's Law*. The law, briefly stated, is that "Bad money always drives good money out of circulation." When good and debased coinage circulated side by side, full-weight coins were withdrawn from circulation by goldsmiths, bankers and others, and used for export, for melting or for hoarding, whilst the debased coins were passed on, with the result that all the new coins soon disappeared.

The law applied similarly to those bimetallic systems of currency in which two metals circulated together at a fixed ratio determined by law, both metals being legal tender for the discharge of debts at this "Mint ratio," as it was called. But, since the actual market value of the two coins as bullion fluctuated from day to day, the market ratio rarely coincided with the Mint ratio, with the result that coins of one metal were overrated by the legal ratio and thus drove out of circulation

the coins of the underrated metal. In accordance with this principle, a fall in the value of silver has several times caused the gold coins of bimetallic countries to disappear entirely from circulation.

Gresham's Law also comes into operation when a depreciated inconvertible paper currency circulates side by side with a metallic currency. The coins are kept back and used for export or melting down, and the inconvertible paper remains in circulation.

The law is, however, subject to three restrictions :—(1) Unless there are sufficient supplies of the weaker currency to meet trade requirements, the good currency will not be withdrawn, and the bad currency will circulate with the good at its full nominal value; (2) If the currency habits of the people are so fixed that the gradual deterioration of the currency is not recognised, the operation of the law will be postponed for a considerable time; (3) Bad money cannot displace good if the community as a whole refuses to accept and to circulate it for exchange purposes.

The Value of Money.

Since money is a commodity, it is obvious that its value will be subject to variations in the same way as the value of any other commodity. But in estimating the extent of variations in the value of money a difficulty arises by reason of the fact that, whereas the value of other commodities is usually expressed in terms of one commodity—money—there is no *one* commodity in terms of which the value of money itself may be measured. The value of money can, however, be measured by ascertaining the quantities of other commodities for which it will exchange; thus the value of money rises if more commodities can be purchased with a given unit of money, and falls if a smaller quantity only of the same commodities can be bought. Briefly, *the value of money varies inversely as the general level of prices*

Price Index Numbers.

Changes in this general level are difficult to measure, because prices do not all fluctuate in the same degree or in the same direction. Over a given period, the prices of certain commodities may rise, while those of other commodities may fall. For this reason the approximate changes in prices over a series of years are measured by means of *price index numbers*. In compiling price index numbers it is usual to compare the prices of a large number of commodities and to give due regard to the relative importance of each in the scheme of expenditure by "*weighting*" (*i.e.*, multiplying each price by a factor estimated to represent its comparative degree of importance).

There are two main classes of Price Index Numbers :—

(1) General Commodity Price Index Numbers, based on wholesale prices.

(2) Cost of Living Index Numbers, based on retail prices.

One of the best known of the former type is that of the *Economist*, based on the geometric mean of the prices ruling during 1927 of fifty-eight commodities.

The commodities selected fall into five groups : (1) Cereals and Meat ; (2) Other Food Products ; (3) Textiles ; (4) Minerals ; and (5) Miscellaneous.

Other important general commodity price index numbers are those of the Board of Trade and the *Statist*.

The index number compiled by the Ministry of Labour is by far the most important of Cost of Living indices, and is based on the average retail prices ruling in 1914 of a large number of commodities in everyday use. The items included fall into five main groups : (1) Food, (2) Rent, (3) Clothing, (4) Fuel and Light, and (5) Other Items. The items are "weighted," as regards both individual commodities and groups, according to their relative importance in the pre-war working-class budget as estimated from an investigation made in 1904.

The accuracy of the weighting of the figures has been the object of much criticism, mainly on the ground that the distribution of working-class expenditure has since changed ; but it is recognised that where a large number of commodities are included, slight inaccuracies in "weighting" are not of great importance, and, as a rough-and-ready basis for adjusting wages, the index is certainly useful.

The Quantity Theory of Money.

The value of money is determined in the same way as the value of any other commodity, *i.e.*, by the interaction of supply and demand.

By the *demand for money* is meant the number of exchanges to be effected by the use of money. When trade is very brisk, a great many commodities will be produced and exchanged, and to carry out the exchanges society will need a great deal of money ; in other words, the demand for money will be great. Conversely, when trade is depressed, the demand for money falls.

By the *supply of money* is meant the quantity of money in existence taken in conjunction with the *rapidity of its circulation*. If money circulates on the average more slowly in one country than in another, a given quantity of money present in the first will be no more effective than a proportionately smaller supply in the second.

According to the *Quantity Theory of Money*, if the supply of money remains the same during any period of time, while the

demand for money increases by reason of the enlarged volume of business, a given quantity of money will exchange for a greater quantity of goods than before. In other words, the *value of money* will have *risen*, or what amounts to the same thing, the value of commodities in terms of money will have fallen, *i.e.*, there will have been a *general fall in prices*. Conversely, if trade activity during any period remains the same, while the supply of money increases, either through an increase in the quantity or through an accelerated circulation, the *value of money will have fallen* and general prices will have risen. Further, if the supply of money at any time increases more quickly than the demand, the result will be a fall in the value of money and a corresponding general rise in prices; while, if the demand for money increases more quickly than the supply, there will be a rise in the value of money and a corresponding general fall in prices.

Qualifications of the Theory.

Under modern conditions many factors must be taken into account when considering the application of the theory. These, although they do not invalidate the underlying principle, tend at times to obscure its working. While some money does not circulate at all because it is hoarded or used in reserves, some pieces of money may be used many times in an extremely short time, and so have several times the effect of pieces which are used once. Again, the use of credit systems and credit instruments increases the supply of effective money and influences its value. The rapidity of circulation *of goods* must also be considered. Many commodities are sold and resold, and the operations of brokers and middlemen multiply the number of transactions constituting the demand for money.

The Effects of Rising Prices.

Any fluctuations in the value of money have serious disadvantages and far-reaching effects.

Although the advantages are temporary and, therefore, superficial, rising prices are often regarded as beneficial to production. Rising prices tend to widen profit margins, and thus to confer a bounty on the *entrepreneur*. This is because production is initiated in anticipation of demand, and the producer secures a higher price for his goods than he expected; moreover, the bulk of his standing costs, such as rent and wages, are relatively fixed, and are slow to respond to the upward tendency of prices. The effect of this is that business confidence is stimulated and a rapid increase in productive activity takes place. Rising prices are therefore said to be "good for trade."

But while rising prices benefit the producing classes and those having fixed payments to make (*e.g.*, companies paying debenture interest), they do so only at the expense of those in

receipt of fixed incomes in the form of salaries or interest from Government stocks. Wage-earners tend to suffer, save in so far as employment and overtime are increased by the greater activity, since the adjustment of wages lags behind the changing price level.

Another effect is that debtors gain at the expense of creditors, since money borrowed when it was dear is paid back when it is cheap. The Government, as the biggest debtor, gains very substantially—a fact which is a great temptation to inflation.

The Effects of Falling Prices.

Falling prices have an effect reverse from that of rising prices, and, in view of their retarding influence on production, are usually regarded as the more harmful.

A fall in prices means reduced profit-margins. Producers endeavour to curtail production or at least to refrain from expanding. Standing charges and costs of raw material tend to encroach on receipts. This increases the general depression, and explains why it is universally agreed that falling prices are "bad for trade."

Wage-earners, to some extent, tend to gain, for the fall in wages lags behind the fall in prices, but wage-earners bear their share of the burden in the heavy unemployment that a period of falling prices usually involves. Those receiving fixed incomes benefit, *e.g.*, annuitants, pensioners, and holders of fixed-income bearing securities. Creditors gain and debtors lose, and the National Debt becomes a greater burden on the taxpayer, while the Government, in its capacity of debtor, loses heavily.

Inflation, Deflation, and Reflation.

One of the chief causes of fluctuations in the supply of money is deliberate manipulation by the monetary authority. Such manipulation may be in an inflationary or in a deflationary direction.

INFLATION may be defined as an abnormal and deliberate expansion of the supply of currency beyond the amount required to supply the needs of the community at the existing price level. It is usually undertaken for the purpose of providing funds for an impecunious government.

DEFLATION, on the other hand, denotes a similar deliberate manipulation of currency, in a contractionary direction, relative to trade requirements.

The result of inflation, which is generally effected by an excessive issue of inconvertible paper money, is to force up prices. During the process prices fluctuate violently from day to day, and, if inflation is continued far enough, the currency may ultimately break down entirely as a standard of value.

Little less harmful are the effects of deflation. When prices are falling rapidly capital development practically ceases, and repairs and renewals are reduced to a minimum. Trade generally becomes depressed and unemployment increases.

REFLATION.—The deflationary policy pursued by most countries after the Great War proved almost as disastrous as the inflationary policy of the war years, so, with a view to remedying the fall in prices, several countries took steps deliberately to expand currency and credit and to raise prices. Though this policy is nothing more or less than inflation, yet, because its object is different, and because the intention is that it shall be carefully controlled, it has been termed "reflation."

The Gold Standard.

The gold standard is a system whereby the value of the currency unit is kept equal to the value of a fixed quantity of gold.

The Report of the Cunliffe Committee, published in 1918, stated that the gold standard system as it operated in this country before the Great War was a "complete and effective gold standard," the essence of which "is that notes must always stand at absolute parity with gold coins of equivalent face value, and that both notes and gold coins stand at absolute parity with gold bullion. When these conditions are fulfilled, the foreign exchange rates with all countries possessing an effective gold standard are maintained at or within the specie points."

It is not essential for the existence of an effective gold standard that gold should be coined. It is enough if gold can be freely obtained or offered in exchange for the circulating media and that it can be freely exported or imported.

A gold standard has several distinct advantages. When it is universally adopted it provides an international measure of value. Secondly, it places an automatic control on credit expansion, which is limited by the gold reserve held. Thirdly, fluctuations in exchange rates between gold-standard countries are confined within the specie points; and, finally, its maintenance necessitates the pursuit of a sound financial policy and therefore inspires confidence.

As with all systems, however, there are disadvantages. The gold standard is not absolutely stable, since variations in the supply of new gold have their effect on prices. A more important disadvantage is that expansion in bank credit depends on new supplies of gold rather than on economic and natural conditions. It is therefore sometimes claimed that the existence of the standard acts as a deterrent to the expansion of industry.

Nevertheless, the gold standard worked with reasonable success until the Great War, and the mere fact that general public opinion looks upon the gold standard as the best and

most natural system is a very good reason for its retention: *public confidence is the first essential of any system.*

Types of Gold Standard.

Several types of gold standard exist, of which four may be distinguished :—

(*a*) The Full Gold Standard, or the Gold Specie Standard, under which the movement of gold and the way in which it can be utilised as currency are unrestricted. Notes are convertible into gold *coin*, and *vice versa*, and a holder of gold bullion is entitled to receive gold *coin* in exchange therefor.

(*b*) The Gold Bullion Standard, under which notes are *not* convertible into gold *coin*, and a holder of gold bullion is *not* entitled to demand that it shall be minted into gold coin. The note-issuing authority is compelled, however, to buy and sell gold bullion at a fixed price in exchange for legal tender.

(*c*) The Gold Exchange Standard, under which the reserves of the monetary authority are held in the form of liquid resources—such as bills, notes or securities of or current in a country where the full gold standard or gold bullion standard exists—and all currency is convertible into exchange on such a country at fixed rates.

(*d*) The Elastic Gold Standard, distinguished from other types of gold standard by the fact that the legal gold equivalent of the currency unit is not absolutely fixed, but is variable within defined limits. The U.S.A. monetary authorities, for example, have power to alter the gold value of the dollar.

The British Monetary System.

The currency of Great Britain consists of paper money and token coins of silver and bronze, and though the gold sovereign is still nominally the standard coin gold coins do not circulate.

The legal tender system of this country is as follows :—

Unlimited Legal Tender—

Gold Coins are legal tender up to any amount.

Bank of England Notes are, by virtue of the *Bank of England Act*, 1833, and the *Currency and Bank Notes Act*, 1928, legal tender for the payment of any amount in England and Wales. Only the £1 and 10*s*. Bank of England notes are legal tender in Scotland and Northern Ireland.

LIMITED LEGAL TENDER—

Silver Coins are legal tender for payments up to forty shillings.

Bronze Coins are legal tender for payments up to one shilling, and the 12-sided threepenny pieces are legal tender up to 2s.

SCOTTISH AND (NORTHERN) IRISH BANK NOTES are *not* legal tender in their respective countries, though Irish Bank Notes are good tender for the payment of revenue duties.

By virtue of the *Gold Standard Act*, 1925, Great Britain returned to the gold standard after the Great War on the basis of the *gold bullion* standard. By this Act, both Bank of England notes and the Treasury notes then issued were made inconvertible into gold *coin*, but they were made convertible into gold bullion, *i.e.*, into gold bars containing approximately 400 ounces of fine gold at the rate of £3 17*s*. 10½*d*. per standard ounce, $\frac{11}{12}$ths fine. The Bank was already under the obligation to exchange notes for gold at the rate of £3 17*s*. 9*d*. per standard ounce. As the Bank was thus compelled to buy gold at not less than £3 17*s*. 9*d*. and to sell at not more than £3 17*s*. 10½*d*., its notes were maintained between these limits at parity with gold bullion. These conditions continued until 21st September, 1931, when, owing to the financial crisis in this and in other countries, Section 2 of the Gold Standard Act was suspended, and the Bank was relieved of its obligation to sell gold. Bank of England notes are now inconvertible. The *Currency and Bank Notes Act*, 1939, relieved the Bank of its obligation to *buy* gold at £3 17*s*. 9*d*. per standard ounce.

Managed Currency.

The most strenuous opposition to the return to the gold standard in 1925 came from the advocates of a *Managed Currency*.

Before the Great War, the American economist, Prof. Irving Fisher, had advocated a *Tabular Standard of Value*, sometimes known as an *Isometric Standard*, based on price index numbers, in order to avoid injustices as between debtor and creditor arising from fluctuations in the general level of prices. His theories received wide support in this country and there grew up a school of thought—the Managed Currency School—foremost among whom was Mr. J. M. Keynes, who asserted that currency should be so managed as to maintain internal price stability.

The Managed Currency Theorists believe in *the maintenance of price steadiness at home* by means of a managed currency, *i.e.*, an inconvertible paper currency, the issue of which is regulated according to the needs of trade to keep internal prices steady. It is argued that, if the pound sterling were controlled

on this basis, it would always, within narrow limits, purchase the same quantity of goods internally; manufacturing costs and selling prices would be accurately determinable, and wage disputes would be reduced to a minimum.

The theory has been subject to considerable criticism, and there undoubtedly are serious objections:—

(*a*) The maintenance of internal price steadiness does not guarantee freedom from exchange fluctuations: that could be achieved, if at all, only by *international* agreement on monetary policy. In the case of a country with a big export trade, *external* price stability is possibly more important than *internal* price stability.

(*b*) Management of currency in accordance with index numbers is still an art rather than a science. There would inevitably be conflict in framing policy, owing to the different class interests affected.

(*c*) It would be difficult to ensure that the note issue, on a managed basis, would be absolutely free from interference from the political party in power.

In answer to these criticisms it is claimed that a managed currency system does not necessarily involve the exchange instability associated with an inconvertible paper currency. Provided the fiduciary issue is reasonably elastic, there can be just as complete a control of the note-issue and reserves as in a gold standard system; the financial system can be managed by the action of the central bank in expanding and contracting the volume of credit. Further, it may also be possible to achieve reasonable exchange stability over short periods. If internal trade conditions are stable, and the price-level free from undue fluctuations, there is no reason why the rates of exchange should show any marked tendency over short periods to fluctuate beyond the control of the monetary authority, unless, of course, there is a major movement in world prices. With the provision of a fund for "pegging" the exchanges it is not difficult for rates of exchange to be kept stable by the action of the central bank in buying and selling foreign exchange as the need arises.

It is admitted that it would not be possible to achieve *long period* stability of the exchanges, unless a managed currency were universally adopted. If world prices were steadily falling at a time when the pound was managed and our own price level kept stable, sterling must, by the application of the Purchasing Power Theory, steadily depreciate in terms of other currencies. Any attempt to hold the rate at an uneconomic level would be bound to fail. It would, therefore, be necessary to adjust the pegged rate from time to time in accordance with the relation between the world price level and our own price level (see page 632).

It is possible, too, that the management would not be entirely effective, but, as against this, it is contended that it would secure a greater measure of stability than is possible in a system where the value of money is tied arbitrarily to the value of gold. Further, the regulation of currency to meet day-to-day, or month-to-month, fluctuations is by no means difficult and has, in fact, been carried out by the Bank of England for many years past. The only difference under a managed currency would be that the Central Bank would be able to prevent long-term, as well as short-term, fluctuations in internal prices.

Advocates of currency management have now an additional argument in their favour, namely, that in a time of stress (1931) the gold standard failed to stand the strain and had to be abandoned. Thus the burden of falling prices which our industrialists had to bear in the years after 1925 in consequence of our return to gold in that year proved to be a wasted sacrifice.

Moreover, it is probable that the conditions which led to the collapse in 1931 were in part, at least, attributable to a factor which is likely to recur, for the fall in world prices which took place during 1925–1931 was actually a reflection of an appreciation in the value of gold, and this appreciation is likely to go on. It is considered that future years will witness a growing *scarcity of gold* (due to an increased demand), bringing with it a continued fall in the prices of commodities as measured in gold. Consequently, all countries which adhere to the gold standard will have to face the deadening effects of falling prices. This alone is a strong argument against our returning to the gold standard. But the scarcity of gold can be alleviated by international action to modify existing currency regulations (*i.e.*, to introduce greater elasticity into currency issues and to provide generally for a lower percentage of reserves); in fact, in international co-operation lies the only true solution of our own monetary problems.

QUESTIONS BEARING ON CHAPTER 36

1. State carefully what you understand by the term "A Gold Standard." (*S.A.A., Final.*)

2. Define :—
   Legal Tender.
   Token Money.
   Standard of Value.
   Seigniorage. (*C.I.I. Fellowship.*)

3. Rising commodity prices are said to be good for trade, while falling prices are said to be bad for trade. Comment on this. (*C.I.I. Fellowship.*)

4. Elucidate the following statement:—

"Since everyone is both a creditor and a debtor, changes in the value of money do not matter." (*S.A.A., Final.*)

5. What is the meaning of legal tender?

In accordance with the *Gold Standard Act*, 1925, the Bank of England, at its head office, will sell to holders of any legal tender gold bars containing approximately 400 oz. troy of fine gold at the rate of £3 17*s.* 10½*d.* per standard ounce. If fine gold is pure gold and standard gold is eleven parts pure out of every twelve, find the amount of legal tender required to purchase a bar of fine gold weighing exactly 400 oz. troy. (*R.S.A., Stage II.*)

6. What is the meaning of the word "Bimetallism"? (*C.A., Inter.*)

7. Explain the meaning of the following terms: Money, Wealth Capital. (*C.A., Inter.*)

8. In the United States of America the quantity of commodities of all kinds produced in 1927 was 26 per cent. greater than the corresponding quantity in 1919. Prices, however, were 29 per cent. lower in 1927 than in 1919. Assuming that all the goods produced changed hands once during each of those years and were paid for by cheques, find how the sums of money passing through the banks were related to one another in 1919 and 1927. (*R.S.A., Stage II.*)

9. What is meant by "Legal Tender"? To what extent is a Bank of England note legal tender?

Is a note of the Bank of Scotland legal tender? (*C.A., Inter.*)

10. What is a bank-note? Who is responsible for its issue? How does it get its value? (*R.S.A., Stage I.*)

11. What do you understand by currency and by legal tender? What changes have been made in each recently? (*R.S.A., Stage II.*)

CHAPTER 37

METHODS OF REMITTING MONEY

THE simplest method of remitting money is, of course, for the debtor to send actual legal tender currency to his creditor. The transmission of notes or coin, however, is a process involving considerable risk and, especially where large amounts are to be sent over long distances, is an expensive procedure. Moreover, actual money is rarely used to settle debts arising out of international trade, since money is seldom acceptable outside the country of issue. For these reasons, various facilities, provided mainly by the Post Office and the banks, are available by which payments may be effected without any actual transmission of money.

POSTAL REMITTANCES

Postal Orders.

Postal orders are a convenient form of order for payment to a named person, drawn on the Post Office itself. They may be obtained from any post office, on payment of a charge known as *poundage*, varying with the value of the order, and are issued for amounts of 6*d*. and multiples thereof up to £1, and also for 21*s*. They can be made available for intermediate amounts by the affixing of stamps not exceeding 5*d*. in value and two in number. Books of postal orders can be obtained from the Post Office.

The sender of a postal order may guard against the risk of its falling into wrong hands by filling in the name of the payee and the name of the Post Office at which the order is to be payable. Postal orders may also be crossed in the same way as a cheque, in which case payment will be made only through a bank.

If these precautions are taken, postal orders are a fairly safe form of remittance, since they are "not negotiable" (see page 598). Sometimes only the name of the payee is inserted, and the town or office of payment is left blank, so that the payee can suit his convenience as to the place of payment. In such a case, a payee who demands payment in person must insert the name of the Post Office as well as sign a receipt for the money in the space provided; but this is not necessary if payment is obtained through a bank, for the latter will cross the order with its own stamp.

Each postal order has a counterfoil which should be filled in with the name of the addressee and the date of despatch. The counterfoil shows the serial letters, number and amount of the postal order, and should be produced in the event of any enquiry or claim concerning a lost order.

Postal orders are payable at practically all post offices in the United Kingdom and the Irish Free State, and at certain places abroad.

Money Orders.

Money orders (sometimes called *Post Office Orders*—P.O.O.'s) are orders addressed by one Post Office to another requiring the latter to pay a sum of money to a specified person. Anyone desiring to purchase a M.O. must apply for one on a form provided by the Post Office, and tender the amount of the order plus the requisite poundage.

On receiving one of these request forms, the postmaster makes out the order in duplicate. One copy he sends to the paying office, and the other he hands to the purchaser so that it may be forwarded to the payee. The payee presents his copy at the paying office and gives the name of the sender. He is then paid the amount specified on the order.

INLAND MONEY ORDERS are issued for any amount up to £40, and the rates of poundage thereon are as follows :—

For sums not exceeding £3 . . .	4*d*.
,, above £3 and not exceeding £10 .	6*d*.
,, ,, £10 ,, ,, £20 .	8*d*.
,, ,, £20 ,, ,, £30 .	10*d*.
,, ,, £30 ,, ,, £40 .	1*s*.

Inland money orders may also be transmitted by telegraph, on payment of the cost of the telegram in addition to the poundage. They may also be crossed in the same way as postal orders.

FOREIGN AND COLONIAL MONEY ORDERS are issued payable in most of the British Colonies and other countries, and they may be transmitted by mail or by telegraph or by cable. The scale of charges varies according to the country concerned.

The Post Office as an Agent.

When money is sent through the post, the Post Office is deemed to be the agent of either the remitter or the addressee, and where any loss arises in course of transit, it must be borne by the party for whom the Post Office is *acting as agent*.

In general, the Post Office is regarded as the agent of the person who first utilises its services. If a remittance is sent through the post and is stolen in transit, the loss will fall on the remitter if he took it upon himself to make use of the post. But if the addressee specifically or impliedly authorised the

remitter to make use of the post, then he must bear the loss. Even in the latter case, however, the remitter will be liable if he has failed to comply with any stipulations made by the addressee as to the form of the remittance.

The mere fact that a debtor has settled his debts with a certain creditor by remittances through the post over a period of years does not in itself make the post the agent of the creditor, even though he has never raised any objection to this mode of remittance (see also page 251).

BANKING REMITTANCES

The above methods of remitting money are of slight importance in comparison with the various methods of payment available through the medium of a bank. About 99 per cent. of internal trade debts are settled by the remittance of *cheques*, while a high proportion of the debts arising out of international trade are discharged by the drawing of a *bill of exchange* on the debtor by the creditor.

Cheques.

The legal aspects of cheques are discussed in some detail in Chapter 41, where it is shown that if a cheque is payable to a specified payee or his order, the payee must indorse the cheque by signing his name on the back before he can receive payment. If the cheque is *crossed generally*, payment will be made only through a bank; while if it is *crossed specially*, the cheque must be collected by the bank named in the crossing. Moreover, if a cheque is crossed *not negotiable*, no person can obtain a title to it through a person who has stolen or found the instrument. Cheques thus form a comparatively safe and economical method of transmitting money.

Traders' Payments.

In October 1930 the British joint stock banks adopted a system whereby debts are "cleared" through the banks instead of being paid by cheque. Briefly, the plan is for the customer periodically to give his bank a list in duplicate of his creditors, showing the names of their bankers (and branches) and the amount he wishes to pay to each. He also provides the banker with a number of "*Credit Slips*," one for each payment, indicating the name and bank of the payee, the amount, the trader's own name and sufficient detail to identify the payment. The Credit Slips are passed through the Clearing and are handed to the payees by their bankers. By using this system (for which the banks make a charge of from 1*d*. or 2*d*. per item) the customer is saved the trouble (and stamp duty) involved in drawing separate cheques for each amount, while he is freed from all risks that the money may not reach the correct quarter.

Bills of Exchange.

Bills of Exchange, which are used chiefly in the settlement of international indebtedness, are discussed in detail in Chapter 40.

Briefly, a bill of exchange is a document in which a creditor instructs a debtor to pay the amount owing, on a specified date, to a named person or his order, or to bearer. The debtor signifies his undertaking to comply with the order embodied in the bill by signing his name across the face, in which case he is said to "*accept*" the bill. In this way the creditor obtains a document embodying a legally enforceable promise on the part of the debtor to pay the debt owing on the stipulated date.

The creditor can obtain payment of hisdebt in two ways: (*a*) he may hand the bill to his banker for *collection* from the drawee at maturity, or (*b*) he may *sell* the bill to his banker for its face value, less interest for the period it has to run. The latter procedure is known as *discounting* or *negotiating* the bill.

Bills may also be drawn payable "on demand" or "at sight," in which case they are payable immediately upon presentation to the drawee.

Nowadays, bills of exchange are seldom used except in foreign trade. Inland trade is usually conducted on the "open account" basis, the debtor remitting the amount due from time to time. In consequence, the creditor is unable to obtain the rapid return of his funds that would be possible if he drew a bill and discounted it, and has resorted to the method of obtaining an overdraft from his banker. This form of finance is rather costly, because the rate of interest is considerably higher than the discount rate. Apparently, however, traders prefer the elasticity of the open account to the rigid formality of the bill of exchange, which ties them down to payment on a definite date. It would now probably be regarded as unusual for bills to be used in domestic trade, and this is a good reason why they are not more widely adopted.

Bankers' Drafts.

Instead of the creditor himself drawing a bill on the debtor, it is possible for the debtor to purchase a draft from his banker and to send this draft to the creditor in settlement of the debt owing. Such a draft takes the form of a bill of exchange drawn by the issuing bank upon a branch[1] or correspondent in the creditor's town, from whom the creditor can collect payment of the amount either on demand or on the expiration of the period specified in the draft, as the case may be. As a general rule the draft will be payable on demand.

[1] If the draft is drawn by one branch on another, it is not legally a bill of exchange (see Chapter 40).

Mail and Telegraphic Transfers.

Owing to the risk of loss or theft that is involved in the remittance of bankers' drafts from one country to another, the method of remittance by *Mail Transfer* (M.T.) is now widely used. A mail transfer may be defined as an order to pay contained in a letter sent by a banker to his agent in a foreign centre. Such a method, nevertheless, involves a certain risk of loss through delay in transmission of the mails, and to meet this difficulty a system of *Guaranteed Mail Transfers* (G.M.T.) or *Guaranteed Payments* has been evolved. In this case the banker *guarantees* that payment in the foreign centre will be effected on a stipulated date. These transfers are therefore advised by cable instead of by mail.

Air Mail Transfers (A.M.T.) and *Guaranteed Air Mail Transfers* (G.A.M.T.) are now provided by the Dominion banks.

A *Telegraphic Transfer* (T.T.) resembles a mail transfer in many ways, but as the advice is telegraphed or cabled by the banker to his agent abroad, payment thereunder can be effected within a few hours of despatch from the issuing centre. Owing to the speed with which the transfer is made and the cost of the telegram or cable, telegraphic transfers are a considerably more expensive form of remittance than are mail transfers or bankers' drafts.

These transfers are invariably expressed in foreign currency (as also may be the bankers' draft referred to above). Thus, A in London may settle a debt of 1000 francs in Paris by buying a T.T. for that amount from his banker. This merely means that his banker telegraphs instructions to his Paris agent, requesting him to pay the francs to A's creditor. A merely pays his bank the agreed *sterling* equivalent.

QUESTIONS BEARING ON CHAPTER 37

1. Consider how far it is possible to use the Post Office as a substitute for a bank in ordinary business transactions. (*R.S.A., Stage I.*)

2. Describe briefly the facilities offered by the Post Office for the discharge of indebtedness between persons in one business centre and another in this country. Have they any advantages over and above those afforded by the banks? (*R.S.A., Stage I.*)

3. Explain fully the differences between a postal order and a money order. (*R.S.A., Stage I.*)

4. A bookseller receives an order for a single book, value 18*s.*, to be sent to a (previously unknown) buyer in Egypt. Describe the best arrangement you know under which he can be certain of receiving the money. (*R.S.A., Stage I.*)

5. Describe the facilities that the Post Office affords for transmitting money from place to place. Compare the security of the several means offered and their utility for business purposes and private affairs respectively. (*R.S.A., Stage I.*)

6. You owe a manufacturer in Paris £50. Describe the different methods by which you could remit the money. (*C.A., Inter.*)

7. Define, and briefly describe and contrast, the functions and advantages of the following documents :—

Banker's Draft.
Telegraphic Transfer.
Mail Transfer.
(*C.A., Inter.*)

8. Messrs. Jones & Co., of Manchester, wish to remit £750 immediately (*i.e.*, so as to be received to-day or to-morrow) to Messrs. Robinson & Co., of Leeds. Describe all the ways you know in which this may be done with the minimum risk of loss. (*R.S.A., Stage I.*)

9. Your firm is located in London. One of the travellers, who is in Birmingham, telephones that he requires £20 immediately. Detail the quickest method of transmitting the money. (*R.S.A., Stage I.*)

CHAPTER 38

THE DEVELOPMENT AND ORGANISATION OF MODERN BANKING

In view of the importance at times of determining exactly what constitutes the business of a banker, it is somewhat surprising that there is in this country no statutory definition of the terms "bank" and "banker." The definition generally accepted is that of Dr. Heber Hart who describes a banker as "one who, in the ordinary course of his business, receives money, which he repays by honouring the cheques of the persons from whom or for whose account he receives it."

This definition recognises what is now regarded as the essential feature of banking business, namely, the holding of money on deposit for the account of customers, and, though the lending and exchanging of money are more important than ever as banking functions, we may, in tracing the development of modern banking, concentrate our attention upon that primary function which we shall regard as the hall-mark of the banker.

The Bank of England.

Since its foundation in 1694, the Bank of England has held the central position in the English banking system. Until 1928, the Bank was regulated by the provisions of the *Bank Charter Act* of 1844, the most important of which were as follows:

(1) The Bank of England was to have two departments—an Issue Department and a Banking Department.
(2) A weekly return of both departments was to be published in the *London Gazette*.
(3) Notes could be issued against securities to the extent of £14,000,000 (the *Fiduciary Issue*). All notes in excess of this were to be covered by gold and silver. The silver was not to exceed one-fourth of the gold.
(4) The Issue Department was to issue notes in exchange for gold bullion at the rate of £3 17*s*. 9*d*. per standard ounce.
(5) No further banks of issue were to be established, and the issues of existing banks were to be limited to their average circulation during the twelve weeks preceding the passing of the Act.

(6) All existing banks were to lose their rights of issue on becoming bankrupt, on amalgamation, or on opening an office in London.

(7) On any country bank's ceasing to issue notes, as under the provisions of the last paragraph, the Bank could obtain an Order in Council empowering it to increase its fiduciary issue to the extent of two-thirds of the lapsed issue.

The provisions of this Act had the effect of gradually reducing the number of note-issuing banks, the last country bank to lose its right being Fox, Fowler & Co., which amalgamated with Lloyds Bank Ltd. in 1921.

The Great War.

The War brought in its train great changes. Up to 1914 the national currency consisted mainly of gold and silver coins, whilst Bank of England notes were used chiefly by the wealthier classes and by the banks as cash reserves for use in case of need. The mobilisation of men and munitions in the early days of August, 1914, however, created an unexpected demand for currency which the existing system was totally unable to bear. To meet immediate needs and to supply the banks with much-needed currency, the *Currency and Bank Notes Act*, 1914, was passed, empowering the Treasury to issue through the Bank of England Currency Notes of £1 and 10*s*. These notes, though convertible in theory, were not so in practice, and the gold which was withdrawn from circulation was either kept in reserve at the Bank of England or used to pay for our enormous war-time imports of food and raw materials.

Meanwhile, for internal purposes we had completely adopted a paper currency, which for some years was under dual control: the smaller notes were issued and controlled by the Treasury, whereas Bank of England notes, the circulation of which had greatly increased, were issued by the Bank of England. The amalgamation of these issues was effected by the *Currency and Bank Notes Act*, 1928.

Currency and Bank Notes Act, 1928.

The principal provisions of the *Currency and Bank Notes Act*, 1928, were as follows:—

(1) As from 22nd November 1928, all outstanding Currency notes were deemed to be bank-notes, and the Bank was made responsible for their repayment.

(2) The Bank was empowered to issue notes for £1 and 10*s*., which were made legal tender for any amount in England, Wales, Scotland and Northern Ireland, even

by the Bank or any branch of the Bank in payment of its larger notes. Moreover, the £5 Bank-note was made legal tender for any amount, and not, as under the Act of 1833, only for amounts of *over* £5.

(3) The Bank was empowered to issue Bank-notes up to the amount of gold coin and gold bullion (and not gold *or* silver as under the *Bank Charter Act*, 1844) held in the Issue Department, and, in addition, to issue bank-notes against securities to the amount of £260,000,000.

(4) The Bank was empowered at its option to include in the securities behind this fiduciary issue of £260,000,000 silver coin to an amount not exceeding £5,500,000 (the amount held in the Currency Notes Redemption Account).

(5) The profit arising out of the note issue was to accrue to the Treasury, as before.

(6) Subject to Treasury sanction, the Bank of England could issue notes to a specified amount in excess of the fiduciary issue of £260,000,000 for a period of six months, but any such sanction must be immediately communicated to Parliament. Further, any authority so given could be renewed for further periods of six months, provided that no expansion of the fiduciary circulation remained in force for more than two years without express parliamentary sanction.

The main features of the Act were (1) the abolition of dual control of the note issue; (2) retention of the fixed fiduciary issue principle; (3) the introduction of a measure of elasticity by providing for issues in excess of the fiduciary limit.

It will be seen that the effect of this Act was to place the Bank of England in sole control of the note issue, and hence to establish it more firmly in its position as the *Central Bank* of this country, *i.e.*, to make it the manager of the currency.

The Act was generally considered to be very satisfactory, but in certain quarters it was severely criticised. By some it was contended that the fiduciary issue was inadequate, since it made no allowance for the increased demand for currency which might follow any marked revival of trade. Others considered that the very principle of a fixed fiduciary issue was unsound, since it caused the note issue to be exceedingly inelastic. A third criticism was directed against what was considered to be a half-hearted attempt to achieve elasticity. This objection was based on the idea that the emergency powers given to the Bank would be used only in times of stress, though it was officially stated that this was a misconception and that it was intended that the device for increasing elasticity should be used freely.

Subsequent events added weight to the criticisms directed

against the Act. The free use of the elasticity device failed to materialise, for it was not until the crisis occurred in Germany in 1931 that the Bank made use of its powers. Then, on 1st August, faced with a withdrawal of gold on an unprecedented scale and with an increased demand for notes for holiday purposes, the Bank applied to the Treasury and was empowered temporarily to increase its fiduciary issue by £15,000,000. The position became easier after the suspension of the gold standard and, early in 1933, the fiduciary issue was reduced to the normal figure of £260,000,000.

The Currency and Bank Notes Act, 1939.

It became apparent that the fiduciary limit of £260,000,000 was too low, in view of the fact that the Bank of England had parted with much of its gold to support the exchange value of sterling, and legislation was passed to provide for a permanent increase in the Fiduciary Issue, and at the same time to alter the method of valuing the gold holdings of the Bank. The gold backing in the Issue Department had continued to be valued at the statutory price of £3 17*s*. 10½*d*. per standard ounce, equivalent to 85*s*. per fine ounce, although the market price of gold was about 148*s*. per fine ounce. There was thus a big "secret reserve" in the Issue Department, and the *Currency and Bank Notes Act*, 1939, was designed to take advantage of this position.

The Act provided that the gold held by the Issue Department should be revalued on the first Wednesday following the day the Act came into operation (Tuesday, 28th February, 1939), and, as a result, the Bank's gold stocks showed an increase in value of about £94½ millions.

At this time the Fiduciary Issue had been increased under the 1928 Act to £400 millions, and as the new Act provided that the statutory amount of the Fiduciary Issue was to be increased from £260 millions to £300 millions, and that any existing authorised increases were to be cancelled, the net effect was a reduction in the Fiduciary Issue, of £100 millions, from £400 millions to £300 millions. The revaluation of the gold stocks provided only £94½ millions to offset this reduction, and the balance of £5½ millions of gold was made up by a transfer from the Exchange Equalisation Account (see page 650) to the Bank. In this way the volume of notes issued was left unaltered.

The Act also provided that the gold and securities held against the Bank's Note Issue were to be revalued once each week at current prices. In order that the volume of note issue should not be affected by these weekly revaluations, any differences between the valuation and the total amount of the note issue were to be adjusted by an equivalent payment from the Issue Department to the Exchange Equalisation Account or from the Account to the Issue Department. For example, if

the value of the gold and securities *rose* from one week to the next, the difference would be *paid* by the Bank to the Account.

Although these weekly revaluations do not affect the volume of note issue, the Bank is still able to vary the note issue by varying the quantity of gold in the Issue Department, or by obtaining permission, under the 1928 Act, to change the note issue, for the 1939 Act retains the elasticity provisions of the 1928 Act.

The Act further provides that the profit from the note issue accruing to the Treasury under the *Currency and Bank Notes Act*, 1928, shall be paid to the Exchange Equalisation Account, and that the section of the *Bank Charter Act*, 1844, requiring the Issue Department to buy gold at the rate of £3 17*s*. 9*d* per standard ounce, shall cease to have effect.

Bank Amalgamations.

A notable feature of modern British joint-stock banking history has been the tendency to concentration by amalgamation and absorption, whereby the banking business of the country has become centred in the hands of a few large institutions, notably the "Big Five"—The Midland, Lloyds, Barclays, the Westminster and the National Provincial. This process of amalgamation and absorption has been carried out in three principal ways :—

(*a*) The absorption by large provincial banks of small country banks.

(*b*) The absorption by large provincial banks of smaller London banks, to enable the former to benefit by the advantages of having a head office in London, and a seat in the Clearing House.

(*c*) The amalgamation of large joint-stock banks to take advantage of the economies of large-scale organisation.

Branch Banking.

Side by side with this process of amalgamation and absorption, there has been in England and Wales a vast extension of the system of branch banking, whereby the great banks operating from London have established a network of branches and agencies throughout the provinces under local managers and agents. Although this highly developed system of banking is not without its strong detractors, it is without doubt attended by a number of important advantages :—

(1) It facilitates the transfer of capital from districts where there is a surplus to those where there is a deficiency. It also permits the movement of funds according to seasonal needs in various districts.

(2) The specialised skill and knowledge of the Head Offices

of the large banks are available for customers in all parts of the country.

(3) Banking facilities are made available in small towns, etc., where the establishment of a local bank would not be a paying proposition.

(4) Advances are spread over a wide range of industries, whereas a bank having a purely local connection often stands or falls by the success of one industry. Moreover, local "runs" and depressions can be more easily met by a branch banking system than by independent unit banks.

(5) There is a tendency for interest rates to be equalised throughout the country. A system of unit banks results in low rates in old, well-developed regions, and high rates in new developing regions.

Of the disadvantages attached to the system, the following may be mentioned :—

(1) The control of branches by Head Office tends to restrict the powers of branch managers, and these may have no highly specialised knowledge of local conditions, as was the case with the old private bankers of England and Wales.

(2) There are certain risks of monopoly—the so-called dangers of a "money trust."

(3) Intensive competition between a few large banks may lead to unnecessary waste, *e.g.*, the opening of several banks in a small district.

The Functions of a Modern Bank.

The following are the principal functions of a modern joint-stock bank :—

(1) The Receipt of Deposits—

(*a*) *On Current Account*, in which case the funds are withdrawable on demand by cheque. No interest is usually paid on such an account.

(*b*) *On Deposit Account*, withdrawable at call or after a specified period of notice, or at a fixed future date. Interest is paid on such accounts at rates varying with Bank rate and with the period for which the funds are deposited.

(*c*) *On Home Safe Account.*—The customer is allowed to place money in a small safe, which is periodically taken to the bank to be opened, and the proceeds credited to the customer's account. Interest at 2½ per cent. per annum is paid on such accounts.

(2) THE GRANTING OF LOANS to customers, in the form either of a fixed advance on loan account or of a fluctuating overdraft on current account.

(3) THE DISCOUNTING OF BILLS, *i.e.*, the purchase of bills of exchange at their face value less interest for the period which they have to run before maturity.

(4) AGENCY SERVICES.—In addition to the primary functions of borrowing and lending, a bank performs a number of agency services on behalf of its customers. These include—

(*a*) The collection and payment of cheques, bills, dividends and other instruments.
(*b*) Stock and share transactions.
(*c*) Executor and trustee work.
(*d*) Assisting companies to raise capital.
(*e*) The periodical payment of subscriptions, insurance premiums, etc., on behalf of customers.

(5) MISCELLANEOUS SERVICES AND THE FINANCE OF FOREIGN TRADE.—Other business undertaken by a bank includes—

(*a*) The transaction of foreign exchange business.
(*b*) The issue of various types of letters of credit.
(*c*) The safe custody of valuables on behalf of customers.
(*d*) Accepting bills of exchange on behalf of customers.

(6) THE ISSUE OF NOTES.—In England and Wales this privilege is confined to the Bank of England, but many of the Scottish and Irish Banks issue notes for local circulation.

The Clearing System.

The growth of the cheque system has led to the development of a mechanism whereby the claims of each bank on other banks in respect of cheques, etc., collected on behalf of customers can be set off and cancelled through one central agency, only the difference between the total sums which each bank has to pay or to receive being actually paid over. In most towns there is a *local clearing* system for the adjustment of the claims arising between the banks in that town, while organised *clearing houses* exist in London and in a number of provincial centres. The local clearings provide facilities for dealing only with cheques which are both collected by and drawn on banks in the area concerned, and claims between banks in different parts of the country are settled through the *clearing houses*.

THE LONDON CLEARING HOUSE.—The London Clearing House deals only with cheques collected by those banks who are members of the Clearing House, *i.e.*, the Bank of England and the leading English Joint-Stock Banks. Other London non-clearing banks (*e.g.*, the Scottish, Irish, Dominion, Colonial and

foreign banks) usually pass cheques held by them to the credit of an account with one of the clearing banks.

There are three divisions of the Clearing House:—

(*a*) *The Town Clearing*, which deals with cheques, bills, etc., drawn on or payable at clearing banks in the Central City area around the Bank of England;

(*b*) *The Metropolitan Clearing*, dealing with cheques, bills, etc., drawn on or payable at clearing banks outside the town clearing, but within a radius of about four miles;

(*c*) *The County Clearing*, which deals with cheques only on clearing banks outside the Town and Metropolitan Clearings.

Cheques issued by the clearing banks have one of the letters, *T*, *M* or *C* printed in the left-hand bottom corner, so as to indicate through which section of the clearing they are to pass. Each bank in the Clearing House sorts into separate bundles or "charges" all cheques drawn on other clearing banks, and a separate "charge" is made, in the case of each bank, for each section of the clearing. The items are then listed, and their totals agreed by the Clearing House representatives of the drawee banks who exchange their "charges."

Totals are made of all the cheques presented by or to each bank, and the difference between these totals represents the amount owing to or by each bank. A settlement is made each day by summarising the balances owing in respect of the Town Clearing for the same day, the Metropolitan Clearing for the previous day, and the Country Clearing for the last day but one, and the ultimate total owing to or by each bank is transferred in the books of the Bank of England between the account of that bank and the account of the Clearing House.

RETURNS.—In the case of the Town Clearing, any cheques dishonoured must be returned, on the day of presentment, direct to the Clearing House, and an adjustment made in the Town Clearing Sheet. In the case of the Metropolitan and Country Clearings, cheques must be returned direct by post to the bank named in the crossing.

The Importance of the Bank Clearing Figures.

Since the great majority of commercial transactions in Britain are now settled by cheque, it will be clear on a little consideration that the figures of the totals of the respective clearings regularly published by the clearing houses of London and of the provincial centres must afford the most striking evidence of the amount of business being done in the country. The transactions which pass through the clearing houses do not, of course, represent all payments which are being made from day to day: many of these are made by cash and by bank-note; others are made by simple transfers in books of account,

whilst many of the payments which are made by cheque never pass through the clearing houses at all but are set off and cancelled by the banks through the medium of the small *local clearings* which take place in every town of any size in the country. On the other hand, the clearing totals are the only figures available which give us any indication of the nation's business turnover, and, by their expansion in times of business activity and their marked decrease in times of business depression, they afford unmistakable indications as to whether trade activity is on the upward or downward grade.

It must, however, be clearly understood that the clearing figures are merely an *indication* of the *trend* of business, and that they are in no sense conclusive. Indeed, the figures of the provincial clearing houses often afford a better indication of the trend of trade activity than do the Town Clearing figures; for, at the times of the Stock Exchange fortnightly settlements, the figures of the London Town Clearing are greatly increased, and they are liable to enormous expansion during times of intense speculative activity by the vast transfers being made between the banks in respect of stocks bought and sold by the speculative public and in respect of other allied financial operations. Extreme activity in financial spheres does not, of course, necessarily imply intense trade activity; and it may be that transactions of enormous total magnitude on the Stock Exchange represent an unhealthy boom which must sooner or later spell disaster for legitimate trade and industry.

Further, we must observe that the bank clearing figures have to be considered in relation to the trend of wholesale and retail commodity prices. When prices are high, the bank clearing totals representing a given volume of business must be greater than the total representing the same volume of business in times of low prices. In 1920, for example, wholesale prices were as much as 100 per cent. higher than they were in the first six months of 1931, so that in the former year the total of bank clearings would have had to be as much as 100 per cent. more than it was in the latter period to represent the same volume of business in terms of commodities.

Bank Balance Sheets.

The manner in which a banker employs his funds, and the sources from which these funds are derived, are best illustrated by the balance sheet of one of the "Big Five," of which the table on page 578 is a specimen.

The Liabilities of a Banker.

The liabilities appearing in a bank's balance sheet represent the sums which the banker receives for employment in his business.

PAID-UP CAPITAL represents the portion of the capital

subscribed by the shareholders which has actually been "called" and paid-up.

In many banks' balance sheets there appears an item "reserve capital," representing that part of the company's uncalled capital that cannot be called up except in the event of liquidation (see page 70). This is an added safeguard for the creditors of the bank.

MIDLAND BANK LTD.

Balance Sheet as at 31st December 1939.

Liabilities.	£	*Assets.*	£
Capital paid up . .	15,158,621	Coin, Bank Notes and Balances with the Bank of England .	57,741,467
Reserve Fund . .	12,410,609	Balances with and Cheques in course of collection on other Banks in Great Britain and Ireland . .	21,438,321
Dividend payable on 1st Feb., 1940 . .	788,248	Money at Call and Short Notice . . .	26,328,4[illegible]
Balance of Profit and Loss Account . .	642,217	Bills discounted . .	65,947,653
Current, Deposit and other Accounts . .	488,294,211	Investments . . .	114,455,272
Balances due to Affiliated Companies . .	7,976,324	Advances to Customers and other Accounts .	220,258,879
Acceptances and Confirmed Credits on Account of Customers .	7,753,907	Midland Bank Executor & Trustee Co. Ltd., Loans on behalf of Clients . . .	430,77
Engagements on Account of Customers . .	9,693,446	Liabilities of Customers for Acceptances, Confirmed Credits and Engagements . .	17,447,253
		Bank Premises . .	8,835,200
		Other Properties and Work in Progress for Extension of the Business	796,281
		Yorkshire Penny Bank Ltd. . . .	937,500
		Shares in Affiliated Companies:—	
		Belfast Banking Co. Ltd. . . .	836,353
		The Clydesdale Bank Ltd. . . .	241,004
		North of Scotland Bank Ltd. . . .	578,236
		Midland Bank Executor & Trustee Co. Ltd. . . .	45,240
	£542,718,183		£542,718,183

THE RESERVE FUND represents an accumulation of undivided profits set aside to provide for emergencies.

DIVIDEND AND BALANCE OF PROFIT AND LOSS ACCOUNT are self-explanatory. These items are often included as "Other Accounts" with the Current and Deposit Accounts.

Current, Deposit and Other Accounts.—This is the most important of the bank's liabilities and includes the amounts standing to the credit of the bank's customers on deposit or current account. "Other Accounts" represent the credit balances on various impersonal or "Office" accounts. This item usually accounts for well over 90 per cent. of the total liabilities.

Liabilities on Acceptances and Confirmed Credits.—This item shows the extent of the liability of the bank for its signature on bills which it has accepted or indorsed on behalf of customers and correspondents, as well as its liability in respect of its guarantee of confirmed letters of credit issued in favour of customers. As the latter are in turn liable to the bank, a corresponding entry appears on the assets side of the balance sheet as a contra item.

Engagements (which do not always appear as a separate item) represent the bank's contingent liability in respect of certain Indemnities, Forward Exchange Contracts, etc.

Rebate on Bills not Due is another item which frequently appears on balance sheets. Such large sums are invested by modern banks in the discounting of bills that a considerable proportion of the discount is unearned by the bank at the time its half-yearly balance sheets are made up. Accordingly, a banker adjusts his profits by opening an account in his books headed "Rebate on Bills not Due," to which he *credits* the total amount of discount which he calculates to be unearned at the date of the balance sheet, and he includes that total in the balance sheet under the heading "Rebate on Bills not Due" on the liabilities side.

The Assets of a Banker.

Since a bank must always be certain of its ability to meet its customers' demands for withdrawals, it must invest its assets in such a way that they are sufficiently easily realised. Safety must not be subordinated to profit-making. In the balance sheet the assets are usually shown in order of realisability.

Coin, Notes and Balances with the Bank of England.—This item includes the total of the legal tender currency held in the bank's strong-rooms, together with the bank's credit balance with the Bank of England. As a general rule, the large banks reckon to keep at least 10 per cent. of their assets in the form of cash. It is considered that to allow the *Cash Ratio*, as it is called, to fall below this figure is unsound, for 10 per cent. has been found by experience to provide a sufficient margin to meet the demands of depositors.

Balances with, and Cheques in Course of Collection.—This item represents the total of cheques, etc., which are in course of clearance, together with the amounts due from other banks.

Money at Call and Short Notice.—This item represents a proportion of the surplus cash of the banker, lent to bill brokers and other members of the Money Market at a low rate of interest, on demand or subject to a period of notice up to seven days, against the security of what are known as "floaters," *i.e.*, parcels of first-class bills of exchange or Government securities.

Investments.—These are chiefly Government securities, but also include Colonial, foreign government and corporation stocks and railway debentures. It is worthy of note that in an acute financial crisis, such as occurred in 1914, these investments are scarcely realisable, and in any case are realisable only at enormous loss. In normal times this item accounts for about 10 per cent. of the assets; but when there is difficulty in finding sound borrowers (as happens in a depression), the banks have to place more of their funds in securities.

Bills Discounted.—Upwards of 50 per cent. of these are normally British Government Treasury Bills, the remainder being chiefly inland bills, discounted for customers or purchased in the open market. In times of trade activity anything up to 20 per cent. of a bank's assets consist of bills of exchange, but in recent years the supply of bills has fallen, the greater part now consisting of Treasury Bills.

Advances to Customers.—Under this heading are included the total of the advances made by the bank to its customers by way of fluctuating *overdraft* on current account or by way of a *fixed loan*. When an overdraft is granted, the customer is permitted to draw on his current account at the bank up to a fixed limit, but, in the case of a fixed loan, the amount lent is *debited* to the loan account and *credited* to the customer's current account so that he may withdraw it from the latter as and when he requires to do so. Very frequently, customers only withdraw a portion of the amount credited to them in respect of such fixed loans, and, where this happens, the balance standing to any such customer's credit will be included in the total of the bank's "Deposits" as well as form part of the bank's "Advances" on the other side of its balance sheet.

Advances to customers are usually difficult to turn into liquid funds in times of crisis because at such times it is almost impossible to obtain repayment; securities (if any) are practically unrealisable, and the calling in of loans by bankers only intensifies the feeling of uneasiness.

In good times advances total about 50 per cent. of the assets, but in the specimen balance-sheet it is seen that the slackness of trade has caused the proportion to fall considerably below this figure.

Liability of Customers on Acceptances, Engagements, etc., as per contra.—This item represents the liability of the bank's customers in respect of the corresponding items on the liabilities side of the balance sheet.

Bank Premises.—These, being the least realisable of the assets, are usually shown in the balance sheet at a figure far below their market value.

Investments in other Banking Companies and Investments in Subsidiary Companies.—These items represent the bank's holding of shares in other banking companies.

Liquidity of Assets.

English bankers are traditionally cautious and their lending policy is designed to ensure as complete and easy liquidity of their assets as is possible. For this reason they lend only for short periods and against undoubted security, a position which has subjected them to much criticism (see Chapter 45). For the same reason, even when trade is prosperous, the advances are not usually allowed to exceed 50 per cent. of the total assets.

Banking Profits.

Although the banks render their services for very moderate fees and are constantly widening the facilities which they offer to customers, they are yet able to make regular and considerable profits. The following are the chief items of income and expenditure which are respectively earned and borne by a large bank ; it goes without saying that any increase in the former or decrease in the latter results in larger profits and *vice versa*, whilst much of the bank's success from a profit-making point of view depends on the margin between the rate at which it can lend and the rate at which it can borrow.

The Chief Items of a Bank's Expenditure are :—

(1) Interest on deposit and other accounts.
(2) Salaries, pensions and directors' fees.
(3) Rent, rates, taxes and insurance.
(4) Office expenses, postage and stationery.
(5) Upkeep of premises, commissions paid to agents, etc.

The Principal Sources of a Banker's Profits are :—

(1) Interest on money lent at call or short notice and on advances to customers.
(2) Discount on bills of exchange.
(3) Interest on investments.
(4) Commissions on current accounts and ledger fees.
(5) Commissions for acting as agent and on Stock Exchange transactions.
(6) Profits and commissions from transactions in foreign exchange and from the issue of letters of credit.

QUESTIONS BEARING ON CHAPTER 38

1. To what process is the word "Clearing" applied? Describe concisely the objects and procedure of the London Bankers' Clearing House. *A.I.C.A., Inter.*)

2. A bank grants a loan of £500 to a customer *A*. Explain what is (*a*) the immediate effect (before *A* has withdrawn any portion of the loan) upon the assets and liabilities of the bank after *A* has paid £50 by cheque to *B*, which *B* has paid into the same bank. (*R.S.A., Stage II.*)

3. State concisely the principal functions of a modern Joint-Stock Banking Company. (*A.I.C.A., Inter.*)

4. The following items are taken from the Balance Sheet of a Bank. Explain what they represent, and state on which side of the Balance Sheet the items would be found :—

(*a*) Liabilities of Customers for Acceptances and Engagements.
(*b*) Acceptances and Engagements on account of Customers.
(*c*) Rebate on Bills not Due.
(*d*) Bills Discounted.
(*e*) Money at Call and Short Notice.
(*S.A.A., Final.*)

5. The *Spectator*, in its issue of 29th July 1929 on "The Wonder of the Cheque," refers to the mystic signs of *T*, *M* and *C* which appear in the left-hand bottom corner of cheques.

What do these signs indicate, and what is their utility? (*S.A.A., Final.*)

6. Show, by simple illustrations, the economy of time and labour effected by the use of the Bankers' clearing houses.

If there take place a large increase in the trade of the country and a steady fall in wholesale prices, how would you expect these factors to be shown in the figures of the bank clearings? (*R.S.A., Stage II.*)

7. Give a simple illustration of the work of a Bankers' clearing house. What deductions can be drawn from changes in the periodical figures of the total clearings? (*R.S.A., Stage II.*)

8. What are the sources from which a bank derives its revenue? (*S.A.A., Inter.*)

9. Explain the functions of Bankers' clearing houses and the manner in which their work facilities trade and industry. (*R.S.A., Stage II.*)

10. State briefly the functions of a Bank. (*C.A., Inter.*)

11. What do you understand by the Bankers' Clearing House? Sketch briefly the principle on which the clearing of cheques is worked. (*C.P.A., Inter.*)

12. What is a Bank? How could you personally make use of the services it renders? (*R.S.A., Stage I.*)

13. Give a brief account of the origin and development of the Banking System in this country? (*C.A., Inter.*)

14. How does a Banker make his profits? (*C.A., Inter.*)

15. Contrast the business of a British bank with that of a retail trader in respect of (*a*) the capital with which the business is conducted, (*b*) the nature of its relations with other traders (for example, with wholesalers). (*R.S.A., Stage II.*)

16. Explain briefly the banking machinery necessary for the English system of payment by cheque. (*C.I.I. Fellowship.*)

CHAPTER 39

THE BANKING ACCOUNT

It is almost impossible to do business of any dimensions to-day without the convenience of a banking account, but, happily, there is now such competition between the various banks for legitimate business that rarely is any difficulty experienced by a reputable trader in obtaining the necessary facilities. Usually, a business man who contemplates opening an account will find that there are several bank offices near his place of business, and, other things being equal, he will naturally choose that bank and branch which is most conveniently situated for his purposes. Nowadays, the large home banks have such a reputation for strength and security that scarcely anyone would seek to compare their relative positions by an examination of their balance sheets, and the average new customer goes to a bank because his acquaintances have received favourable treatment there, or because he may be known to the manager or one of the other officials.

The Advantages of a Banking Account.

Although a banker is essentially a borrower of money from the public, the services that he offers in exchange for the loan to him of money on current account are such that, unlike other borrowers, he does not have to pay interest to the lender. Indeed, unless the average balance maintained by the customer is sufficiently large, it is usual for the banker to charge some form of commission in return for his services.

The following are the chief advantages, briefly summarised, that accrue to the customer through the possession of a banking account :—

(*a*) He is relieved of the risk involved in keeping large sums of money on his premises.

(*b*) He is afforded all the facilities offered by the use of cheques as a means of effecting payments (see page 615).

(*c*) He may utilise the services of the banker in the collection of cheques and bills received from his debtors.

(*d*) He may obtain advances from the banker by (i) an overdraft or loan against security, or (ii) the discount of bills.

(e) He may obtain information regarding the stability of persons with whom he transacts business, and may give the banker as a reference as to his own standing.

Opening the Account.

Unless a prospective customer is already well known to the bank manager or to one of the bank's other officials, the customer will invariably be required to provide some form of introduction so that the banker can satisfy himself that the projected account is likely to be conducted in a reasonably satisfactory way and that the facilities afforded by the bank are not likely to be misused.

Furthermore, the prospective customer will be required to supply a specimen of his own signature and also specimen signatures of any persons authorised to sign on his behalf—the latter signatures being recorded on a form of "*Mandate*" addressed to the banker. Similarly, when an account is opened for a partnership, each partner must provide a specimen of his signature, since each is usually entitled to sign on behalf of the firm. Usually the banker also requires the specimen signatures to be written in a book—*the Signature Book*—which he keeps for handy reference to provide his cashiers and ledger keepers with a ready means of identifying the signatures on cheques and other instruments presented for payment.

The same considerations apply when a company is first formed. In many cases, no doubt, the matter of choosing a bank will be settled by the Directors, but sometimes they will consult the secretary. Other things being equal, a limited company will open its account with a bank having premises conveniently close to its registered office, but often the question will largely depend upon the nature of the business. If the company has been formed with its Head Office in London for the purpose of dealing in South African wool, it will obviously be advisable to open an account with one of the South African banks. Moreover, certain banks specialise in certain types of business, and, although the service offered by any of the Big Five is as a general rule more inclusive than that offered by the other banks, there may well be certain peculiarities in the nature and direction of the business of a company which make it desirable to open an account with, say, a foreign bank. Similarly, a firm having branches in many towns would keep its account at the bank having branches in the greatest number of those places; though, of course, large concerns very frequently open accounts with more than one bank.

When a suitable bank has been chosen, the secretary or one of the Directors will approach the manager, who, providing he is satisfied with the *bona fides* of the company, will agree to open the account and will lay down a scale of interest and charges. A Board Meeting of the Company is then held, at

which a resolution is passed, appointing the bank in question as bankers to the company and authorising them to pay cheques, etc., signed by named officials of the company in a specified manner.

The resolution is normally worded so as to cover the signature by way of drawing, making, accepting, or indorsing any form of draft, cheque, note or bill, whether the account is in debit or credit, and the persons who are authorised to sign must be clearly designated. It is quite usual to arrange that cheques or bills must be drawn or accepted by any one director and countersigned by the secretary, whilst indorsements can be made by either a director, or the secretary, or possibly the cashier.

A copy of the resolution, signed by the chairman of the meeting, is forwarded to the bank, accompanied by copies of the company's Memorandum and Articles (both of which the bank may retain) and the company's Certificate of Incorporation (which must be returned after inspection by the bank).

Since no public company may enter into any binding contract until its *Trading Certificate* (or *Certificate to Commence Business*) has been issued, strictly it cannot open a banking account until this formality has taken place. In practice, however, bankers will open an account for a company at any time, although they may refuse to release any of the moneys received by them on the account until they have seen the Trading Certificate.

Before opening the account the banker usually requires one or more references as to the respectability of the concern, but in this regard all that is necessary is to provide him with the names of one or more persons or firms who have had dealings with the company and to whom he may write requesting an opinion as to its respectability. Very often the necessary references will be given by the Directors of the company, especially if they are well-known to the bank.

Types of Account.

In all cases the conditions under which the account is to be conducted must be definitely agreed between the bank and its customer. As was mentioned in the previous chapter, the account may be either a current account, a deposit account or a loan account. If a current account is opened the customer is provided with a *Pass-Book*, a *Paying-in Book* and a *Cheque-Book*, and usually no interest is allowed on a credit balance on the account, although interest is, of course, claimed by the banker when the account is in debit, *i.e.*, "*overdrawn*." Deposit accounts are opened by traders who have surplus funds available which they do not wish to invest but on which they desire to obtain at least a little interest. The rate paid by bankers is usually low (2 per cent. below Bank rate, with an apparent minimum of ½ per cent.).

As a rule, the transactions between a banker and a customer on a deposit account are recorded for the customer's benefit in a *Deposit Account Pass-Book*, which is to all intents and purposes the same as the pass-book issued in respect of a current account, except that it contains in addition the terms on which the deposit is accepted, an indication of the rate of interest to which it will be subjected and particulars of the notice which must be given for withdrawals.

Sometimes, in place of a deposit account pass-book, the banker issues in favour of the depositing customer a receipt—known as a *Deposit Receipt*—acknowledging the money received on deposit, and stipulating that the receipt must be presented to the bank in order to obtain repayment.

In both cases, the money received on deposit is stated to be repayable only after the customer has given a specified period of notice (usually seven or fourteen days) of his intention to withdraw the funds, though the bank will usually dispense with part at least of the stipulated period in consideration of a rebate of interest.

Banks will naturally pay a higher rate of interest on deposits of reasonable amount which are to be left with them for a considerable period than on deposits which are likely to be withdrawn at any time on the giving of the stipulated period of notice. For this reason, customers often leave surplus funds with a bank on " fixed " deposit for, say, three, six or twelve months at very favourable rates of interest, which the banker can afford to pay because he knows with certainty that the funds concerned can be remuneratively employed by him during the period in question.

The Paying-in Book.

The object of this book is to provide the customer with an acknowledgment by the bank of moneys paid in to the credit of his account. The procedure is quite simple. Cash, cheques, bills, coupons, and other documents representing money are entered up in the book, with sufficient details to identify them and with a note of the date on which they are paid in. The book is then taken along to the bank and tendered, with the cash and other documents, to the cashier, who checks the entries, retains the articles paid in and returns the book, after having impressed the bank stamp thereon. Cash and, usually, cheques are credited immediately to the account, whilst bills, etc., are collected by the bank on behalf of its customer and credited as the proceeds are received. Needless to say, cheques on banks in the immediate vicinity can be collected more quickly than those on distant places, and the banker charges small fees—" collecting-charges "—for obtaining payment of cheques and bills drawn on Ireland, Scotland, or foreign countries.

The Pass-Book.

This book is used to provide a record of the state of indebtedness between the bank and its customer. It is a copy of the customer's account as it appears in the books of the banker and shows on one side the entries to the credit of the customer (moneys paid in) and on the other, entries to the customer's debit (money drawn out by cheque or in cash). The balance between the two sides of the account should represent the amount standing to the customer's credit—or debit, as the case may be—and should agree with the figures shown by the latter's Cash Book.

Arrangements are usually made with the bank whereby at regular intervals the pass-book (written up-to-date) can be obtained by the customer. The period may be daily or weekly or even monthly, according to the nature of the business. These arrangements should always be adhered to, and the pass-book should regularly be checked and reconciled with the Cash Book, any mistakes being pointed out to the bank with the utmost promptitude. Similar arrangements should be made with banks that issue typewritten statements instead of pass-books, and these statements should be carefully filed for future reference—some banks issue special binders for this purpose.

Reconciling the Bank Balance with the Cash Book Balance.

In reconciling the pass-book with the Cash Book a certain amount of difficulty may be experienced owing to the fact that the latter book may contain a record of certain payments-in that have not yet been "cleared," *i.e.*, the proceeds of which are not yet available, and of certain drawings (by cheque) which have not yet been paid out by the bank (the cheques not yet having been presented for payment). In order to check the accuracy of both Cash Book and pass-book in these circumstances, it is necessary to prepare what is known as a *Reconciliation Statement.*

Suppose, for instance, that on a certain date a firm has a credit balance, according to its pass-book, of £196 10*s*. 6*d*., but that according to its Cash Book its balance should be £215 3*s*. 2*d*. To check the accuracy of these figures a statement is made out on the lines of that shown on the next page.

In the majority of cases, of course, the statement will be more complicated than that shown, which is meant only as an illustration. The amounts to be *added*, as shown on p. 588, are ascertained from the Cash Book and pass-book by ticking off the items credited in the latter against those credited in the former, the unticked items representing those not yet cleared. Similarly, the amounts to be subtracted are obtained by ticking off the debit entries in the Cash Book with those in the pass-book, when the unticked entries in the former represent cheques not yet presented.

Bank Reconciliation Statement.

30th April 19....

		£	s.	d.
Credit Balance, per Pass-Book . . .		196	10	6
Add Amounts paid in but not cleared :—				
28/4/... . .	£23 10 5			
29/4/... . .	15 2 1			
		38	12	6
		£235	3	0
Less Cheques drawn but not presented :—				
No. 321374 . .	£10 5 6			
321377 . .	9 14 4			
		19	19	10
Credit Balance per Cash Book . .		£215	3	2

The Relation between Banker and Customer.

When a customer deposits money with a banker, the money becomes the banker's property at his absolute disposal. In other words, the banker does not become the customer's agent or trustee; he may invest or loan the money as he thinks fit, and is not responsible to his customer for any profit made thereon. The basic relationship between banker and customer is that of debtor and creditor: normally the banker is the debtor, and the customer the creditor; but where the latter's account is in debit the positions are reversed.

Nevertheless, the relationship between banker and customer differs from the normal relationship of debtor and creditor in that there are certain superadded obligations on each party arising out of an implied contract between them. These special features of the relationship are as follows :—

(1) THE MONEY OWING BY THE BANKER IS NOT REPAYABLE UNTIL A DEMAND FOR REPAYMENT HAS BEEN MADE BY THE CUSTOMER.—In this respect the debt owing by a banker differs from an ordinary debt, for a debtor is ordinarily under an obligation to seek out and pay his creditor. Since the debt is repayable on demand, the Statute of Limitation (see page 253) does not begin to run in favour of the banker until a demand for repayment is made by the customer; but where the customer's account is overdrawn, each advance (*i.e.*, each debit to the account) becomes statute-barred after six years from the date it is made.

(2) THE BANKER'S DUTY TO HONOUR CHEQUES.—It is a part of the implied contract between banker and customer that the banker will honour his customer's cheques to the extent of the latter's credit balance, or to an agreed overdraft limit, provided that the cheques are in

order (*i.e.*, correctly drawn), that the customer has not countermanded payment, and that there is no legal bar prohibiting payment.

(3) THE BANKER'S DUTY OF SECRECY.—A banker may not disclose any details concerning his customer's account, nor any information regarding his customer that he may have obtained from other sources, except in the following circumstances :—

(*a*) *Where there is compulsion of law*, as under the *Banker's Books Evidence Act*, 1879

(*b*) *Where there is a duty to the public to disclose*, as where disclosure is necessary to avert a danger to the State.

(*c*) *Where the bank's interests require disclosure*, as where the amount of an overdraft is stated on a writ.

(*d*) *Where the customer has given his express or implied consent to the disclosure* (see below under *Bankers' Opinions*).

(4) THE BANKER'S LIEN.—The banker has a general lien on all securities which come into his hands in the ordinary course of business, and for a purpose not inconsistent with lien. Banker's lien differs from ordinary lien in that it gives the banker the right not only to *retain* but also to *realise* the securities to which it applies.

(5) A BANKER HAS A RIGHT TO CHARGE REASONABLE COMMISSION AND INTEREST on the customer's turnover or balance. Interest on overdrawn accounts is usually charged at ½ per cent. or 1 per cent. above Bank rate; but, except by special agreement with the customer, it is not usual to allow interest on the *credit* balance of a current account. Where the average credit balance, having regard to the volume of business passing through the account, is not considered sufficiently large to be remunerative, it is usual for the banker to charge a commission of ⅛ or $\frac{1}{16}$ per cent. on the turnover. In some cases, however, the banker's commission may take the form of a fixed charge, debited quarterly or half-yearly, and known as a *ledger fee*.

(6) In all dealings with his customer the banker is bound to follow THE USUAL COURSE OF BUSINESS.

Bankers' Opinions.

One of the most important services rendered by bankers is that of acting as "*referees*" as to the standing of their customers. Whenever a trader feels any doubt as to the reliability or solvency of a prospective client, information may be obtained from the former's banker, who will be able, through the machinery of his "Information" or "Intelligence" Department

to supply reliable and up-to-date information with a minimum of delay. The obtaining of such information is facilitated if the name of the client's banker is known, as the banker may then put through an enquiry direct.

From the banker's point of view the answering of such enquiries is a delicate matter involving great care. Despite the banker's duty to preserve secrecy concerning his customer's affairs, it is possible that the practice among bankers of exchanging general information concerning customers is so well established that a customer, in the absence of an express stipulation to the contrary, would be deemed to have impliedly consented to the giving of such opinions. Nevertheless, the banker must always take care not to include in his opinion any statement that might amount to unjustifiable disclosure of his customer's affairs. In no case will he give any information except to one of his own customers or to another bank; and even then he will in no circumstances disclose the actual balance on the customer's account.

Entries in a Customer's Pass-Book.

Entries in a customer's pass-book are *prima facie* deemed to be correct, but either the banker or the customer may call evidence to show that they are, in fact, incorrect, in which case they may be adjusted. If, however, a customer, by reason that too large a credit balance is shown in his pass-book, is led to draw cheques in excess of his true credit balance, the banker will be liable for damages if he dishonours cheques drawn by the customer in good faith and in reliance upon the position shown by the pass-book.

On the other hand, a customer is under no obligation to examine his pass-book, nor, having examined it, does he in any way warrant the accuracy of the entries therein. Thus, if at any time he discovers that cheques have been wrongly debited to his account, or that he has not been credited with amounts due to him, he can demand that his balance be restored, even if his silence has prejudiced the banker's position, providing his silence had no fraudulent intent.

Set-Off.

Where a customer has two accounts in the same right, *e.g.*, accounts designated "No. 1 Account" and "No. 2 Account," it would appear that the banker is under an implied agreement to keep them separate and cannot set-off a credit balance on one account against a debit balance on the other, unless and until he has given reasonable notice to the customer.

This is the position while the accounts remain current accounts, but where anything occurs to "*stop*" the account, *e.g.*, the death, bankruptcy or insanity of the customer, or the

service of a garnishee order attaching his account (see below), the right of set-off may be exercised *without notice* in order to enable the banker to ascertain the ultimate balance due to him or to his customer.

In no case, however, can a banker set-off two accounts that are not *in the same right, e.g.*, a partnership account and the private account of one of the partners, or a trust account and the personal account of the trustee. Nor may a banker, in any circumstances, combine the balances on different accounts of a public or local authority.

Garnishee Orders.

A Garnishee Order is an order of the High Court granted in favour of a creditor who has obtained judgment against his debtor, attaching funds of the debtor which are in the hands of a third party, known as the "*garnishee.*" The original order issued is known as a "*garnishee order nisi,*" which attaches the funds in the hands of the garnishee, but gives him an opportunity of appearing before the Court to show cause why the funds in his hands should not be paid over. The final step is taken when the order is made "*absolute*" by the Court: the garnishee must then pay to the judgment creditor a sufficient amount to satisfy the judgment debt, or, if the funds in his hands are insufficient for this purpose, the whole of such funds.

A garnishee order attaches only those debts that are "*owing or accruing due,*" *e.g.*, the balance on a current account, but not money on a deposit account subject to notice, for the debt in this case does not begin to accrue due until the customer has given notice of withdrawal. It should be observed that a garnishee order attaches *all* debts due from the garnishee, even if the amount of these debts is greatly in excess of the judgment debt. But if the amount of the judgment debt is paid into court, the surplus funds are released. To this rule there is the exception that sometimes a Garnishee Order is issued in a form which limits its availability to a specified amount, when the balance (if any) in excess of that amount is not attached by the Order.

A similar procedure is available in the County Court by means of a *County Court Garnishee Summons.*

Closing an Account.

Although a customer may at any time close a current account with a banker by withdrawing his credit balance, or, if the account is overdrawn, by paying off the debit balance plus any accrued interest or charges, the banker, however unsatisfactory a customer's account may be, cannot close it without due notice. The necessary period of notice will depend en-

tirely upon the circumstances of each case, but it must be sufficient to enable the customer to complete any outstanding transactions. In one case as much as one month's notice was held to be insufficient.

On the closing of an account it is usual for the banker to ask the customer to sign a "*nil*" *certificate* certifying that the account is settled.

MISCELLANEOUS SERVICES RENDERED BY BANKERS

Advising upon Investments.

Customers frequently approach their bankers for advice concerning the disposal of funds that they are anxious to invest. Such enquiries are somewhat embarrassing to the banker, since, although the mere giving of an opinion is not, in practice, likely to involve the banker in any legal liability, the customer is likely to feel extremely dissatisfied if he is led to invest his money in an unprofitable way. The course usually adopted by the banker is, therefore, to obtain from his brokers a selected list of investments suitable for the customer, and to forward this to the customer stating that it is the broker's and not his own opinion.

Standing Orders.

The banker is also prepared to accept "*standing orders*" for the payment of subscriptions, insurance premiums and other periodical disbursements. Such orders take the form of an authority or mandate sent to the banker, signed by the customer over a twopenny stamp, instructing the banker to pay the prescribed sums to named persons on specified dates and to debit the amounts to the account of his customer.

Safe Custody.

Customers frequently take advantage of the security offered by their banker's vaults to deposit with him valuable documents, plate, bearer securities, jewellery, and similar objects of value, all of which the banker places under lock and key and releases only at the personal request of the trader.

In accepting securities for safe custody, the banker is in the position of what is known as a "*bailee*"; but there is considerable difference of opinion among experts as to whether he is to be regarded as a *gratuitous* bailee or as a *paid* bailee. It is contended by some that, as the banker makes no specific charge for the safe-keeping of valuables, he may be properly classed as a *gratuitous* bailee; whereas the view is also held that, since safe custody facilities are among the services which all banks

offer to induce persons to open accounts, a banker should be regarded as a *paid bailee*, or *bailee for reward* or *hire*, the opening of the account by the customer being regarded as the consideration for the banker's services.

A gratuitous bailee must take the best possible care of goods entrusted to him, and must utilise such facilities for their protection as he has at his disposal. The duty of a bailee for reward is somewhat higher; he must not only utilise the facilities at his disposal, but must also equip himself with such safeguards as are expected of one holding himself out as a guardian of valuables. In the case of the banker, however, the distinction is not of great importance, since he has in any case at his disposal strong-rooms and safes which would be regarded as adequate equipment for a paid bailee.

Capital Issues.

When a company issues capital, or makes a call on existing shareholders, it is usual to call in the services of its bankers to accept and give receipts for the payments, and to act as a depository of the funds. In the case of a new issue the bank's name is usually shown on the prospectus, though the consent of the bank must be obtained before this is done, and, to this end, the bank should be sent a draft copy of the prospectus for inspection and approval. When this procedure is followed the bank will generally assist in the distribution of the prospectuses by displaying them on its counters.

Before the prospectus is sent out, arrangements are made for a special banking account to be opened (or for more than one where there is more than one class of shares), and for all application moneys to be credited to this account. The application forms will be numbered in rotation by the bank and entered in the same order in a special pass-book, which will be forwarded at intervals with the application forms. The total cash received can then be checked off with the pass-book.

In the same way, when shares are allotted, or when a call is made, the bank will open an Allotment Moneys Account or a Call Moneys Account, and will follow a similar procedure to that described above.

Payment of Dividends.

Another instance in which a banker is of use to a company arises when dividends have to be paid. Then the Secretary will arrange to open a special dividend account with the bank by a transfer from current account to cover the total amount for which warrants are issued, and the banker will be instructed to debit all paid warrants to this account. A specimen warrant (duly cancelled) will be sent to the banker for his information, together with a form of authority instructing him to pay the warrants. The banker may be given a copy of the dividend

list which has already been prepared, with, if necessary, notes of the powers of attorney (in respect of the endorsement of certain of the warrants) that have been exhibited to the company, but bankers do not favour this procedure, as it throws upon them the onus of checking every warrant with the list and increases enormously the work involved and the responsibility they incur. If the warrants are to be signed by means of printed or lithographed signatures, the banker will require an indemnity from the company against any loss arising from the payment of warrants issued without authority.

Financing Trading Operations.

The main function of a banker, apart from those already discussed, is to assist in the finance of trading operations. This, however, is of sufficient importance to warrant separate treatment and will therefore be discussed in detail in Chapter 45.

QUESTIONS BEARING ON CHAPTER 39

1. Explain the purpose of a bank pass-book and a paying-in book. Why should the bank balance, shown by a customer's cash-book and his pass-book, not always agree? In case of disagreement between the two balances, how could a customer reconcile them? (*London Chamber of Commerce.*)

2. What is the difference between a current account and a deposit account with a bank? Under what circumstances is a retailer likely to use the latter? (*R.S.A., Stage I, Elem.*)

3. What are the requirements of a bank before an account can be opened with a Limited Liability Company? (*C.P.A., Inter.*)

4. What does a banker, as a general rule, require of a prospective customer before opening a banking account? (*C.A., Inter.*)

5. Explain carefully the nature of the transactions that ordinarily take place between a retailer and his bank. (*R.S.A., Stage I, Elem.*)

6. What considerations would influence you as a trader in opening a deposit account rather than a current account at a bank, and *vice versa*?

7. What do you understand by a *bank reconciliation statement*? Give an example by way of illustration.

8. In what circumstances, if any, may a banker give information to third parties as to his customer's account?

9. What do you understand by "banker's lien"?

10. What services do bankers render the trading community in giving opinions as to the standing of their customers?

11. To what extent are the entries in a customer's pass-book binding on (*a*) the customer; (*b*) the banker?

12. What is the usual procedure in opening a current account with a bank by (*a*) a Partnership, (*b*) a Joint-Stock Company? (*London Chamber of Commerce, Certif.*)

CHAPTER 40

BILLS OF EXCHANGE AND PROMISSORY NOTES

(Unless otherwise stated, references herein are to Sections of the Bills of Exchange Act, 1882.)

THE utility of the Bill of Exchange in commerce has already been discussed. In this chapter will be considered the legal characteristics of this important document and of the promissory note—a similar type of instrument. Legally, a bill of exchange is defined as—

> "An unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person, or to bearer" [*Section* 3 (1)].

From this definition we may deduce that there are eight requisites as to the form of a valid bill :—

(1) THE BILL MUST BE AN ORDER and not a mere request. The mere addition of words of courtesy, *e.g.*, "*Please* Pay *X*," will not, however, invalidate the bill.

(2) THE ORDER MUST BE UNCONDITIONAL, *i.e.*, payment must not be conditional upon the performance of any act. "An order to pay out of a particular fund is not unconditional within the meaning of this section ; but an unqualified order to pay, coupled with (*a*) an indication of a particular fund out of which the drawee is to reimburse himself or a particular account to be debited with the amount, or (*b*) a statement of the transaction which gives rise to the bill, is unconditional" [*Section* 3 (3)].

(3) THE ORDER MUST BE IN WRITING.—This includes typewriting or print.

(4) THE ORDER MUST BE ADDRESSED BY ONE PERSON TO ANOTHER.—A bill in which drawer and drawee are the same person is not a valid bill, though the holder may treat it as such.

(5) THE ORDER MUST BE SIGNED BY THE PERSON GIVING IT, *i.e.*, the drawer.

(6) THE BILL MUST BE PAYABLE ON DEMAND, OR AT A FIXED OR DETERMINABLE FUTURE TIME.—If the date of payment depends on the happening of any event which is certain to happen, the bill is perfectly valid, but a bill payable on a contingency is invalid. Thus

SPECIMEN BILLS OF EXCHANGE

£100 0s. 0d. London, *1st March* 19 .

Impressed Stamp 1/-

Three months after date pay to *John Wood* or order the sum of *One hundred pounds.*

To *James Arthur, Esq., Manchester.* *Thomas Jones.*

Inland Bill payable after Date.

*$5000*^{00} Chicago, *1st March* 19 .

Sixty days after sight of this first of exchange (second and third of same tenor and date unpaid) pay to *Third City Bank, Chicago,* or order, the sum of *Five thousand dollars,* and place to account of shipment of wheat per s.s. *Kildare,* as advised.

To *Grain Importers Ltd., Liverpool.* *Arthur Riley.*

Foreign Bill drawn in a Set.

a bill payable "three months after the death of *X*" is a good bill, for *X* is certain to die one day; but a document drawn "Pay *X* on the marriage of *C*" is not a bill, for it is quite possible that *C* may never marry. Moreover, where an instrument is made payable on a contingency, the happening of the event does not cure the defect [*Section* 11 (2)].

(7) THE ORDER MUST REQUIRE PAYMENT OF A SUM CERTAIN IN MONEY.—Such a sum may, however, be expressed to be payable with interest, by stated instalments (with or without a provision that upon default in payment of any instalment the whole shall become due), or according to an indicated rate of exchange to be ascertained as directed by the bill [*Section* 9 (1)]. A bill drawn in foreign currency is perfectly valid, even though no rate of exchange is indicated, and such a bill is payable at the rate of exchange ruling at its maturity. An instrument which

orders any act to be done in addition to the payment of money is not a bill [*Section* 3 (2)]. Where the sum payable is expressed in words and also in figures, and the two do not agree, the sum denoted by the words is the amount payable [*Section* 9 (2)].

(8) THE BILL MUST BE PAYABLE TO OR TO THE ORDER OF A SPECIFIED PERSON, OR TO BEARER.—Where the bill is drawn payable to a stated person it is deemed to be payable to him "or to his order." That is to say, he may indorse it away to another person

Date of Bill.

The date of a bill is generally written by the drawer in the right-hand top corner. An undated bill is quite valid, however, and will be considered as bearing the date on which it was issued. Further, a bill is not invalid merely because it is ante-dated or post-dated, or because the date borne is a Sunday.

Inland and Foreign Bills.

" An inland bill is a bill which is or on the face of it purports to be (*a*) both drawn and payable within the British Islands or (*b*) drawn within the British Islands upon some person resident therein. Any other bill is a foreign bill " [*Section* 4 (1)]. The term " British Islands " in this section includes any part of Great Britain and Northern Ireland, the Isle of Man and the Channel Isles. It does not include Eire, which is a foreign country for purposes of the *Bills of Exchange Act*.

The Due Date of a Bill.

Where a bill is not payable on demand the Act provides that the day on which it falls due shall be determined as follows :—

" Three days, called days of grace, are, in every case where the bill itself does not otherwise provide, added to the time of payment as fixed by the bill, and the bill is due and payable on the last day of grace." This rule is, however, subject to the following exceptions :—

(*a*) When the last day of grace falls on Sunday, Christmas Day, Good Friday, or a day appointed by Royal Proclamation as a public fast or thanksgiving day, the bill is (except in the case mentioned below), due and payable on the preceding business day ;

(*b*) When the last day of grace is a bank holiday, or when the last day of grace is a Sunday and the second day of grace is a Bank holiday, the bill is due and payable on the succeeding business day [*Section* 14 (1)].

When a bill is payable at a fixed period after date, after sight, or after the happening of a specified event, the time of payment is determined by excluding the day from which the time is to begin to run and by including the day of payment [*Section* 14 (2)].

The term month in a bill means a calendar month [*Section*

14 (4)], and no account is taken of any "lacking" days in a month, *e.g.*, a bill dated 31st January and payable one month after date is payable on the 3rd March in any year, *i.e.*, whether February has 28 or 29 days.

The following examples will serve to illustrate these principles:—

Date of Bill.	Tenor of Bill.	Due Date.
1st February . .	30 days after date.	6th March (5th March in leap year).
3rd April . . .	3 months after date.	6th July.
1st June (sighted 17th June) . .	60 days after sight.	19th August.
22nd October . .	2 months after date.	24th December.
23rd November. .	1 month after date.	27th December.
25th October (Sunday)	60 days after date.	28th December (Monday).

Bills in a Set.

Bills relating to foreign trade are frequently drawn in sets of two or three parts (see page 596), which are identical in all respects, except that each refers to the others. Only one part requires stamping. The object of this method of drawing is to prevent loss and to save time in that the parts may be sent by different mails. Thus, time is saved by sending one part to be accepted whilst the remaining part or parts may be negotiated—the two operations being performed simultaneously.

Only one part should be accepted or indorsed, but a person signing any part or more than one part is liable on each of those parts to a holder in due course. Discharge of one part is a discharge of the set, but if an acceptor pays a part other than the one he has accepted, he remains liable on the accepted part to a holder in due course. If two or more parts are negotiated to different *holders in due course* (see page 601), the one whose title first accrues is deemed the true owner.

THE PARTIES TO A BILL

Before examining the relationship existing between the various parties to a bill, we may pause to consider the nature of that quality of *negotiability* which has such an important bearing upon the rights and liabilities of those parties, and to which is largely attributable the importance of the place occupied by the bill of exchange in modern commerce.

What is a Negotiable Instrument?

An instrument is negotiable when it is, by a legally recognised custom of trade or by law, transferable by delivery or by indorsement *and* delivery, without notice to the party liable,

in such a way that the holder of it for the time being may sue upon it in his own name, and that the property in it passes to a *bona fide* transferee for value free from equities and free from any defect in the title of the person from whom he obtained it.

From this definition it will be seen that a negotiable instrument is an exception to the general rule of law that no person can derive a title to any property conveyed to him by a person other than the true owner. A rough-and-ready test of negotiability is, "Can a good title be acquired through a thief?" If so, the instrument is negotiable.

Although the Courts will recognise any instrument as negotiable if it can be shown to be so recognised by an established custom of trade, the following can for present purposes be regarded as a complete list of negotiable instruments—bills of exchange, promissory notes, cheques, bearer bonds, scrip certificates and share warrants to bearer, debentures to bearer, Treasury Bills, and Exchequer Bills. Amongst the more common commercial instruments which are transferable but *not* negotiable are share certificates, bills of lading and postal orders.

The Parties to a Bill.

From an examination of the specimen bills appearing on page 596, it will be observed that the names of three persons appear on the face of each bill, *e.g.*, in Specimen No. 1, the *drawer* (Thomas Jones), the *drawee* (James Arthur), and the *payee* (John Wood). Of these persons, however, only one, the drawer, has become a party to the bill by signing it as evidence of his liability thereon. A bill may, in fact, be perfectly valid if it bears the signature of the drawer as the only party, but there are, in general, at least three parties to a bill. These are:—

(1) THE DRAWER, the person addressing the order.

(2) THE ACCEPTOR, the name given to the *drawee* (the person to whom the order is addressed) as soon as he has signified his undertaking to comply with the order contained in the bill by "accepting" it (see below).

(3) THE INDORSER, the name given to any other person signing a bill, usually on the back. A bill payable to order is not capable of negotiation until it has been indorsed by the *payee.*

It should be noted that the payee is not, as such, a party to the bill, since he incurs no liability thereon. He has, however, certain rights on the bill (which are treated below), and, in any case, becomes liable as an indorser as soon as he indorses the instrument.

The Signature to a Bill.

Capacity to incur liability as a party to a bill is co-extensive with capacity to contract [*Section* 22 (1)], that is to say, anyone who has capacity to bind himself by contract may bind himself

by signing a bill. By *Section* 23, no person is liable as drawer, indorser or acceptor of a bill who has not signed it as such: provided that—

(1) Where a person signs a bill in a trade or assumed name, he is liable thereon as if he had signed it in his own name;

(2) The signature of the name of a firm is equivalent to the signature, by the person so signing, of the name of all persons liable as partners in that firm.

A signature is perfectly valid if made by mark, or by a stamped, lithographed or printed signature. The signature may also be affixed by another person acting under the authority of the person purporting to sign, in which case the signature is usually what is known as a "signature by procuration." Such a signature operates as notice that the agent has but a limited authority to sign, and the principal is bound by such signature only if the agent in so signing was acting within the actual limits of his authority (*Section* 25).

Where a person signs a bill as drawer, indorser or acceptor, and adds words to his signature indicating that he signs for or on behalf of a principal or in a representative character, he is not personally liable thereon; but the mere addition to his signature of words describing him as an agent, or as filling a representative character, does not exempt him from personal liability [*Section* 26 (1)].

A signature on a bill which is forged, or placed thereon without the authority of the person whose signature it purports to be, is wholly inoperative, and no right to retain the bill or to give a discharge therefor or to enforce payment thereof against any party thereto can be acquired through or under that signature, unless the party against whom it is sought to retain or enforce payment of the bill is precluded by statute or by his own conduct from denying its validity (*Section* 24).

Delivery.

Every contract on a bill, whether it be the drawer's, the acceptor's, or an indorser's, is incomplete and revocable, until it has been given effect to by delivery of the instrument. But where an acceptance is written on a bill, and the drawee gives notice to the person entitled to the bill that he has accepted it, the acceptance then becomes complete and irrevocable [*Section* 21 (1)]. In all cases, however, the delivery, to be effective, must be made either by or under the authority of the person responsible for it. Moreover, the delivery may be shown to have been conditional or for a special purpose only, and not for the purpose of transferring the property in the bill. Nevertheless, where a bill is no longer in the possession of a party who has signed it as drawer, or acceptor, or indorser, a valid and unconditional delivery by him is presumed until the contrary is proved [*Section* 21 (3)].

Consideration for a Bill.

Since a bill is a contract it is necessary that it should be supported by the passing of valuable consideration. Unlike an ordinary simple contract, however, a bill may be supported merely by an antecedent debt or liability [*Section* 27 (1b)].

Although bills commonly include such words as "for value received," *Section* 3 (4) provides that a bill is not invalid by reason that it does not specify the value given, or that any value has been given therefor. Moreover, every party whose signature appears on a bill is *prima facie* deemed to have become a party thereto for value [*Section* 30 (1)].

"Holder" and "Bearer."

The *holder* of a bill is the payee or indorsee who is in possession of it, or the bearer thereof (*Section* 2). The *bearer* is the person in possession of a bill payable to bearer (*Section* 2), and a bill is payable to bearer which is expressed to be so payable, or on which the only or last indorsement is an indorsement in blank. Furthermore, where the payee is a fictitious or non-existing person the bill may be treated as payable to bearer [*Section* 7 (3)]. A payee is fictitious within the meaning of this Section when he is not intended *by the drawer* to receive payment of the bill. But a bill made payable to "Wages," "Rent," or some other impersonal payee cannot be regarded as payable to bearer. Strictly, such an instrument is not a valid bill, as it does not order payment to a specified *person*.

Where value has at any time been given for a bill, the holder is deemed to be a *holder for value* as regards the acceptor and all parties who became parties to the bill before such value was given [Section 27 (2)].

A *holder in due course* is a holder who has taken a bill, complete and regular on the face of it, under the following conditions, namely, (*a*) that he became the holder of it before it was overdue, and without notice that it had previously been dishonoured, if such was the fact; (*b*) that he took the bill in good faith and for value, and that at the time the bill was negotiated to him he had no notice of any defect in the title of the person who negotiated it [*Section* 29 (1)].

Since a forged or unauthorised signature is wholly inoperative, no person in possession of a bill on which the payee's or indorsee's signature is forged can be a holder in due course, nor even a holder. Nor can the payee of a bill be a holder in due course, since the bill is never *negotiated* to him, negotiation consisting of indorsement completed by delivery.

A holder in due course has a perfect title to the bill against the whole world, and is unaffected by any defects in the title of prior holders, or by any equities existing between prior parties to

the bill. Moreover, when a bill is in the hands of a holder in due course, all previous deliveries are presumed to have been made unconditionally and with full authority.

Accommodation Parties and Bills.

An accommodation party to a bill is a person who has signed a bill as drawer, acceptor, or indorser, without receiving value therefor, and for the purpose of lending his name to some other person. An accommodation party is liable on the bill to a subsequent holder for value; and it is immaterial whether, when that holder took the bill, he knew such party to be an accommodation party or not (*Section* 28).

Although any bill bearing the signature of an accommodation party is often loosely referred to as an *accommodation bill*, the term should be confined (in its legal sense) to those bills to which the *acceptor* is an accommodation party.

Liabilities of Parties.

THE DRAWER of a bill, by drawing it, engages that on due presentment it shall be accepted and paid according to its tenor, and that if it be dishonoured he will compensate the holder or any indorser who is compelled to pay it, provided that the requisite proceedings on dishonour are duly taken [*Section* 55 (1)].

The ACCEPTOR of a bill, by accepting it, engages that he will pay it according to the tenor of his acceptance (*Section* 54).

The INDORSER of a bill, by indorsing it, engages that on due presentment it shall be accepted and paid according to its tenor, and that if it be dishonoured he will compensate the holder or a subsequent indorser, who is compelled to pay it, provided that the requisite proceedings on dishonour be duly taken [*Section* 55 (2)].

Before acceptance the drawer is the person ultimately liable and the indorsers are sureties for due payment, liable in the order in which they have indorsed. *After acceptance* the acceptor is ultimately liable, the drawer and the indorsers being in the nature of sureties. They differ from ordinary sureties, however, in that each is liable for the full amount: there is no right of contribution among themselves.

Transferor by Delivery.

Where the holder of a bill payable to bearer negotiates it by delivery without indorsing it, he is called a "transferor by delivery." A transferor by delivery is not liable on the instrument, but he warrants to his immediate transferee that the bill is what it purports to be, that he has a right to transfer it, and that at the time of transfer he is not aware of any fact that renders it valueless (*Section* 58).

Thus a transferor by delivery is not liable if the bill is dishonoured for lack of funds, unless he knew that it would not be paid, but he is always liable if there is a prior forgery.

NEGOTIATION OF BILLS

A bill is negotiated when it is transferred from one person to another in such a manner as to constitute the transferee the holder of the bill. A bill payable to bearer is negotiated by delivery, whilst a bill payable to order is negotiated by the indorsement of the holder completed by delivery (*Section* 31).

Indorsements.

There is no statutory definition of the word "indorsement," but the term is here used to denote the signature of a person, usually the payee or indorsee, on the back of a bill of exchange.

There are seven classes of indorsement :—

(1) Indorsements in Blank.—An indorsement in blank consists of the simple signature of the indorser on the back of the bill. Such an indorsement by the payee or indorsee of an order bill renders the bill payable to bearer.

(2) Special Indorsements.—A special indorsement is one which specifies the name of the person to whom or to whose order the bill is to be made payable, *e.g.*, on a bill payable to John Jones or order, "Pay to the order of William Smith—John Jones."

(3) Conditional Indorsements.—A conditional indorsement is one which makes the transfer of the property in a bill subject to the fulfilment of a stipulated condition, *e.g.*, "Pay Arthur Evans on delivery of bills of lading." Where a bill is indorsed conditionally the condition may be disregarded by the payer, and payment to the indorsee is valid whether the condition has been fulfilled or not (*Section* 33).

(4) Partial Indorsements.—An example of a partial indorsement would be "Pay John Jones eighty pounds" on a bill for £100. An indorsement in this form operates as an authority to receive the sum specified, but is ineffective as a negotiation of the bill.

(5) Restrictive Indorsements, *e.g.*, "Pay William Smith *only*—John Brown," or "Pay Midland Bank Ltd., for the credit of my account—John Brown."

(6) Indorsements Negativing or Limiting the Indorser's Liability.—Where the indorser adds to his signature words such as "*sans recours*" or "*without recourse to me*," he incurs no liability other than that of a transferor by delivery. The addition of words such as "*sans frais*," "without expense" or "no charges" will exempt him from liability for any notarial or other charges.

(7) Facultative Indorsements.—A facultative indorsement is one in which the indorser waives some or all

of his rights, *e.g.*, on a bill payable to John Smith "John Smith (notice of dishonour waived)."

Where the holder of a bill payable to his order transfers it for value without indorsing it, the transfer gives the transferee such title as the transferor had in the bill, and the right, in addition, to have the indorsement of the transferor.

Overdue Bills.

A bill which remains in circulation after the due date is said to be *overdue.* Such a bill can only be negotiated subject to any defect of title affecting it at its maturity, and thenceforward no person who takes it can acquire or give a better title than that which the person from whom he took it had [*Section* 32 (2)]. Similarly, a bill payable on demand is deemed to be overdue for purposes of negotiation when it appears on the face of it to have been in circulation for an unreasonable length of time. What is an unreasonable length of time for this purpose is a question of fact [*Section* 36 (3)].

Presentment of a bill on demand must be made within a reasonable time after its issue, in order to render the drawer liable, and within a reasonable time after its indorsement, in order to render the indorser liable [*Section* 45 (2)].

Inchoate Bills.

Where a simple signature on a blank stamped paper is delivered by the signer in order that it may be converted into a bill, it operates as a *prima facie* authority to the holder to fill it up as a complete bill for any amount the stamp will cover (see page 612), using the signature for that of the drawer, or an acceptor, or an indorser; and, in like manner, when a bill is wanting in any material particular, the person in possession of it has a *prima facie* authority to fill up the omission in any way he thinks fit [*Section* 20 (1)].

In order that any such instrument when completed may be enforceable against any person who became a party thereto prior to its completion, it must be filled up within a reasonable time and strictly in accordance with the authority given, "reasonable time" for this purpose being a question of fact. But if any such instrument is negotiated after completion to *a holder in due course,* it is valid and effectual for all purposes in his hands, and he may enforce it as if it had been filled up within a reasonable time and strictly in accordance with the authority given [*Section* 20 (2)]. Nevertheless, no rights can be acquired on such an instrument unless there has been delivery, actual or constructive, *for the purposes of completion*; the conclusive presumption of a valid delivery in favour of a holder in due course (referred to on page 601) exists only when the document, at the time it left the possession of the party to be charged, was

a valid bill, complete and regular on the face of it: it does not exist in the case of an inchoate instrument.

Material Alteration.

Where a bill is materially altered without the assent of all parties liable thereon, the bill is avoided except as against any party who has himself made, authorised or assented to the alteration, and subsequent indorsers. But when a bill has been materially altered, and the alteration is not apparent, a holder in due course may avail himself of the bill as if it had not been altered, and may enforce payment of it according to its original tenor [*Section* 64 (1)]. Further, he may enforce payment in accordance with the tenor of the bill as altered against any person who became a party subsequent to the alteration.

In particular the following alterations are material: namely, any alteration of the date, the sum payable, the time of payment, the place of payment, and, where a bill has been accepted generally, the addition of a place of payment without the acceptor's consent [*Section* 64 (2)].

Lost Bills.

If a bill is lost before it is overdue, the person who was the holder of it may apply to the drawer to give him another bill of the same tenor, giving security to the drawer (if required) to indemnify him against all persons whatever in case the bill alleged to have been lost shall be found again. If the drawer refuses to give such a duplicate bill, he may be compelled to do so (*Section* 69).

In any action or proceeding upon a bill, the court or a judge may order that the loss of the instrument shall not be set up as a defence, provided an indemnity be given to the satisfaction of the court or judge against the claims of any other person upon the instrument in question (*Section* 70).

ACCEPTANCE, PAYMENT AND DISHONOUR

General and Qualified Acceptances.

An acceptance may be either *general* or *qualified*. A general acceptance is one that assents without qualification to the order of the drawer, while a qualified acceptance in express terms varies the effect of the bill as drawn.

There are five types of qualified acceptance:—

(1) CONDITIONAL, *e.g.*, "Accepted subject to the delivery of three cases of sherry."

(2) PARTIAL, *e.g.*, a bill drawn for £1000 but accepted for £500 only.

(3) LOCAL, *i.e.*, where a bill is accepted payable at a specified place *and there only*.
(4) QUALIFIED AS TO TIME, *e.g.*, a bill drawn payable three months after date accepted payable six months after date.
(5) ACCEPTANCE BY SOME OF SEVERAL DRAWEES.

Discharge of a Bill.

A bill is said to be discharged when all rights and liabilities thereon are nullified. There are five ways in which a bill may be discharged, namely :—

(1) BY PAYMENT IN DUE COURSE, *i.e.*, by payment made at or after the maturity of the bill by the acceptor to the holder thereof in good faith and without notice that his title to the bill is defective (if such is the case) [*Section* 59 (1)].
(2) WHEN THE ACCEPTOR BECOMES THE HOLDER OF THE BILL IN HIS OWN RIGHT AT OR AFTER MATURITY (*Section* 61).
(3) BY RENUNCIATION, when the holder of a bill at or after its maturity absolutely and unconditionally renounces *in writing* his rights against the acceptor [*Section* 62 (1)].
(4) BY CANCELLATION, where a bill is intentionally cancelled by the holder or his agent, and the cancellation is apparent thereon [*Section* 63 (1)].
(5) BY MATERIAL ALTERATION (*Section* 64).

Dishonour of a Bill.

When a bill has been duly presented for acceptance or payment in accordance with the rules laid down in the *Bills of Exchange Act*, and acceptance or payment has been refused, the bill is said to be dishonoured by non-acceptance or non-payment. Upon such dishonour an immediate right of action accrues to the holder against all parties to the bill, provided the necessary formalities specified in the Act have been carried out. In most cases it is necessary for the holder to give formal notice of dishonour to all parties whom he is seeking to hold liable.

Noting and Protest.

In some cases it is necessary for the holder to obtain formal proof that a bill has been dishonoured by having the bill "*noted*" and subsequently "*protested*" by a notary public.

NOTING is of no significance except as a preliminary to protest. It *can* be dispensed with altogether, and the bill can be protested at once, but it is usually more convenient to note the bill first and to extend the noting into a protest later, if necessary.

The procedure is as follows: After the bill has been dishonoured, the holder hands it to a notary public for re-presentment. The notary or his clerk re-presents the bill and, if it is again dishonoured, "notes" on the bill itself the particulars as to the date, his own charges, the number of the bill in his register and his initials, whilst he attaches to the bill a slip stating the reason for dishonour.

From the particulars noted, the notary will, if necessary, prepare a formal *protest*. This is a document *under seal* made by the notary attesting the dishonour of the bill, and declaring the holder's intention of recovering the amount of the bill and expenses. A protest is recognised in the Courts of all civilised countries as a sufficient proof that a bill has been dishonoured. Once a bill has been noted, the protest can be extended at any subsequent date.

Protest is necessary in the case of all *foreign* bills that have been dishonoured. It is not usually necessary either to note or to protest an *inland* bill, though the expenses of noting, but not of protest, can be recovered from any party liable if they are incurred. Inland bills must, however, be protested in the following cases :—

(1) As a preliminary to acceptance or payment for honour (see below).
(2) For purposes of summary diligence in Scotland.
(3) After dishonour by non-payment by an acceptor for honour (see below).

It is also advisable to note a dishonoured inland bill which bears any foreign indorsements, or upon which there is any likelihood of the holder's commencing an action in a foreign Court.

Where the services of a notary public are not available, any householder or substantial resident of the place may, in the presence of two witnesses, give a certificate, signed by them, attesting the dishonour of the bill, and this certificate operates in all respects as if it were a formal protest of the bill (*Section* 94). Such a certificate is known as a HOUSEHOLDER'S PROTEST.

Measure of Damages on Dishonour.

When a bill is dishonoured, a holder who has taken the requisite proceedings on dishonour may recover from any party liable: (*a*) the amount of the bill; (*b*) interest thereon from the time of presentment for payment if the bill is payable on demand, and from the maturity of the bill in any other case; (*c*) the expenses of noting, or, when protest is necessary, and the protest has been extended, the expenses of protest [*Section* 57 (1)].

The Court has discretion in all cases to withhold interest in whole or in part.

In the case of a bill which has been dishonoured abroad, in

lieu of the above damages, the holder may recover the amount of the "*re-exchange*" with interest thereon until the time of payment [*Section* 57 (2)]—*re-exchange* being the amount in foreign currency for which a sight bill must be drawn at the place of dishonour or the place of payment in order to realise, at the current rate of exchange (see Chapter 42) between the two places, the amount of the bill together with expenses.

Referee in Case of Need.

The drawer of a bill and any indorser may insert therein the name of a person to whom the holder may resort for acceptance or payment in case of need, that is to say, in case the bill is dishonoured by *non-acceptance* or *non-payment*. Such a person is called *the referee in case of need*, and the holder may resort to him or not as he thinks fit (*Section* 15).

Acceptance for Honour.

If a bill of exchange has been protested for dishonour by non-acceptance and is not overdue, any person, not being a party already liable thereon, may, with the consent of the holder, intervene and accept the bill *supra protest*, for the honour of any party liable thereon, or for the honour of the person for whose account the bill is drawn. A bill may be accepted for honour for part only of the sum for which it is drawn. An acceptance for honour *supra protest* in order to be valid must (*a*) be written on the bill, and indicate that it is an acceptance for honour; (*b*) be signed by the acceptor for honour. Where an acceptance for honour does not state for whose honour it is made, it is deemed to be an acceptance for the honour of the drawer. The maturity of a bill so accepted is calculated from the date of noting for non-acceptance (*Section* 65).

The acceptor for honour is liable to the holder and to all parties to the bill subsequent to the party for whose honour he has accepted [*Section* 66 (2)]. Commonly, the referee in case of need (where there is one) becomes the acceptor for honour.

Payment for Honour.

Where a bill has been protested for non-payment, any person may intervene and pay it *supra protest* for the honour of any party liable thereon, or for the honour of the person for whose account it is drawn [*Section* 68 (1)]. Such a payment, which must be attested by a *notarial act of honour* (*i.e.*, a formal declaration by a notary), discharges all parties subsequent to the party for whose honour it is made [*Section* 68 (3) *and* (5)].

PROMISSORY NOTES

Promissory notes are in many ways similar to bills of exchange, but differ in certain important respects. They are

governed, like bills, by the *Bills of Exchange Act*, 1882, which defines a promissory note as :—

"An unconditional promise in writing made by one person to another, signed by the maker, engaging to pay on demand or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person, or to bearer."

From this definition it will be obvious that a note is not "drawn" but "*made*," and the person who first puts his name to it and issues it is known as the "maker." Since promissory notes are never accepted there can be no acceptor; his place is taken by the maker, who is the party primarily liable on the instrument. The remaining parties to a note are in a position similar to the other parties to a bill (indorsers).

Joint and Several Liability.

When a note is made by two or more makers their liability may be either "*joint*" or "*joint and several*," depending on the actual wording of the note. Thus, if the note is drawn in the form: "I promise to pay, etc.," the makers are deemed to be jointly *and* severally liable; whereas if the wording runs: "We promise to pay, etc.," the makers are liable only *jointly*.

The difference between a "joint" and a "joint and several" note is that in a joint note *all* the makers should be sued together if the note is dishonoured, for, if any party is left out and judgment against the others fails (*i.e.*, is not satisfied), the party omitted from the action is freed from liability. The holder of a *joint* note has only one right of action; consequently, if the maker of such a note dies, his estate is freed from liability. In a *joint and several* note, however, action may be taken against the makers either singly or in conjunction, and, even if judgment is obtained against one and is not satisfied, action may be taken against the remaining maker or makers.

Differences between Bills of Exchange and Promissory Notes.

The following are the principal points of difference between the two classes of instruments :—

Bill of Exchange.	Promissory Note.
The drawer of a bill when it has been accepted is only secondarily liable.	The maker of a note is the principal debtor, and corresponds with the acceptor of a bill.
A bill is an *order* to pay.	A note is a *promise* to pay.
Bills are accepted if payable other than on demand.	Notes are *never accepted*—there is no drawee.
Bills may be accepted conditionally.	Notes cannot be made conditionally.
Acceptors of a bill are liable jointly.	Makers of a note may be liable jointly or jointly and severally, according to its tenor.
A bill on demand requires a twopenny stamp (see page 612).	All promissory notes (except banknotes) require *ad valorem* stamps.

Bills possess several advantages over ordinary promissory notes. In the first case, when a bill has been accepted it bears the name of both drawer and acceptor and therefore offers greater security than a promissory note which bears only the name of the maker. Secondly, bills are more commonly used and therefore more readily accepted than are promissory notes, the latter being regarded more as acknowledgments of indebtedness than as negotiable instruments though they are in fact fully negotiable. Finally, the fact that a bill may be accepted makes it a useful instrument for financing trade with the aid of a banker's credit. This is done by inducing a banker to put his name on a bill as acceptor (see Chapter 45); on a note, of course, this cannot be done.

Discounting Bills.

The holder of a bill of exchange, who does not wish to wait until maturity before he receives the proceeds, may *discount* it and so obtain the funds immediately. To discount a bill is to sell (or negotiate) it. The discounter becomes a holder in due course, and can deal with the bill as he likes; his title to the bill is absolute and covers the whole face value. Of course, no banker will discount a bill unless he is satisfied that the parties thereto are of good standing; otherwise he may risk losing his money entirely. But if he decides to discount or buy a bill he may enforce payment against any party liable on the instrument if it is dishonoured. If a discounted bill is returned unpaid, the banker can debit the customer with the amount thereof and with any charges incurred in connection with the dishonour.

When a customer takes a bill to his bank to be discounted the banker buys the bill for an amount less than its face value. The margin between the face value and the amount paid by the bank, *i.e.*, the proceeds of discounting, is termed *banker's discount*, and is calculated by the banker as interest on the amount of the bill for the period the instrument has to run.

Actually, the amount received by the customer is less than the *true present worth* or true present value of the bill, *i.e.*, that sum which, with interest added for the time the bill has to run, would equal the amount of the bill. In other words, *banker's discount* is in excess of *true discount*.

Suppose that on the 4th January 1941 a customer presents a bill for £1000 to his bank for discount. The bill is due on 18th March 1941, and the banker agrees to discount the bill at 5 per cent. He calculates as follows :—

Discount at 5 per cent. for 73 days on £1000 = £10

£1000 − £10 = £990.

The banker will therefore pay the customer £990 for his bill. If the banker reckoned *true discount*, he would proceed as follows :—

Assuming P.W. to represent the present value of a bill which in 73 days at 5 per cent. per annum would amount to £1000—

$$P.W. \left(1+\frac{5\times 73}{365\times 100}\right)=£1000:$$

$$i.e.,\ P.W.=\frac{1000\times 36500}{36500+365}$$

$$i.e.,\ P.W.=£990\ 2s.\ 0d.$$

$$\therefore \text{ True discount } £9\ 18s.\ 0d.$$

In other words, by the method of calculating bankers' discount the banker gains a small margin and his customer loses to the same extent.

Domiciling Bills.

Traders who have accepted bills would find it very inconvenient to obtain cash from their bankers in order to pay off the bills at the dates of maturity; they therefore overcome this difficulty very frequently by "*domiciling*" the bills with their bank. This is done by accepting the bills "Payable at the Blank Bank, Blanktown," when the holders, in order to obtain payment, must present the bills to the bank named. Before a trader can safely domicile a bill in this way, he must, of course, make arrangements with his banker. The latter may charge a small commission, sometimes called "*domicile commission*," and may also require the customer to give him a form of indemnity agreeing to make good to the banker any loss he may incur through performing this service. Needless to say, the customer must put his banker in funds to meet any such domiciled bills as they fall due.

Clean and Documentary Bills.

Bills are frequently drawn—especially in the foreign trade—with shipping documents attached. This matter has been mentioned previously in Chapter 34, and it will suffice to point out here that, when a bill is drawn "*Documents on Acceptance*" (D/A), the documents must be surrendered to the drawee when he accepts the bill. On the other hand, when a bill is drawn "*Documents on Payment*" (D/P), the documents remain attached to the bill until it has been paid. Bills drawn with documents attached are known as *Documentary Bills*, whilst those without documents are called *Clean Bills*.

Retiring Bills.

It is chiefly in connection with "D/P" bills that the practice of *retiring bills* has arisen. A trader who has accepted a D/P

bill may desire to obtain possession of his goods some time before maturity, but he cannot obtain these unless he is in possession of the documents. The trader usually knows who holds his bill (for, as will be explained later, D/P bills are difficult to discount) and he accordingly communicates with the holder, stating that he wishes to "retire" the bill. It is then a matter of arrangement between the two parties as to what price the acceptor shall pay; usually the holder agrees to a rebate calculated at ½ per cent. per annum above the current rate allowed on short deposits by the London joint-stock banks.

If the trader has domiciled his bill with his bankers, he will address to the latter an instruction on a "Bills to be Retired Form" requiring the banker to pay the bill under rebate on presentation by the holder. When payment is made, the bill and documents will be handed to the bank, by which they will be passed to the customer if the latter has provided adequate funds to meet the bill.

Stamp Duties on Bills and Notes.

Bills and notes are liable to various stamp duties which must be strictly observed, otherwise the bill or note in question will usually be rendered invalid and no legal action can be taken thereon. The following are the chief provisions regarding stamping :—

The stamp duty on a cheque or a *bill of exchange payable on demand, at sight, or on presentation, or within three days after date or sight,* irrespective of the amount payable, is 2*d.*, which may be denoted by either an impressed or an adhesive stamp.

Bills of exchange of any other kind (with the exception noted below) and *promissory notes of any kind* (except a bank note) drawn, or expressed to be payable, or actually paid or indorsed, or in any manner negotiated in the United Kingdom, require "*ad valorem*" stamps as follows :—

	s.	*d.*
For an amount not exceeding £10 . . .	0	2
,, ,, over £10 but not exceeding £25 . .	0	3
,, ,, ,, £25 ,, ,, £50 . .	0	6
,, ,, ,, £50 ,, ,, £75 . .	0	9
,, ,, ,, £75 ,, ,, £100 . .	1	0
and for every additional £100 or fraction of £100 . .	1	0

From the above it will be noticed that the rules for stamping promissory notes differ from those applicable to bills of exchange only in the fact that *all* promissory notes, whether on demand or not, must be stamped, in accordance with the table above, with *ad valorem* stamps, which must be *impressed*; whereas a bill on demand or within three days after date or sight for any amount requires only a 2*d.* stamp, which may be either impressed or adhesive.

On a bill of exchange *drawn and expressed to be payable out of the United Kingdom*, but actually paid or indorsed or in any manner negotiated in the United Kingdom, the duty is as in the above table up to £25, and for amounts over £25 up to £100 it is 6*d.*; where the amount exceeds £100, it is 6*d.* for every £100 or part of £100.

Where a bill is expressed in foreign currency, the British stamp-duty is calculated by converting the currency into sterling at the rate of exchange ruling on the date of the bill, and stamping at 1*s.* (or 6*d.*) per £100 on the sterling equivalent.

QUESTIONS BEARING ON CHAPTER 40

1. Explain the effect of the following terms :—
   (*a*) Not negotiable ;
   (*b*) Without prejudice.
   (*C.P.A., Inter.*)

2. Define the term "negotiable instrument," and give three examples of such instruments. Is a debenture a negotiable instrument ; if so, when ? (*C.A., Inter.*)

3. The acceptance of a bill of exchange may be either "general" or "qualified." Give two examples of a "qualified acceptance." (*C.A., Inter.*)

4. What is the difference between a promissory note and a bill of exchange ? Submit a specimen of each for £1000, payable on demand, denoting the stamp duty in each case.
What is the difference between an "IOU" and a promissory note ? (*C.A., Inter.*)

5. What are—
   (*a*) Documentary bills ;
   (*b*) Accommodation bills ?

What is the legal liability of an indorser of a bill of exchange ? (*C.A., Inter.*)

6. Give the legal definition of a bill of exchange. Draft a form of an ordinary bill of exchange, and define the terms—
   (*a*) Holder in due course.
   (*b*) Special indorsement.
   (*c*) Restrictive indorsement.
   (*C.A., Inter.*)

7. What is a documentary bill, and what functions does it serve in international commerce ? (*C.A., Inter.*)

8. Indicate the stamp duty on the following bills :—

On demand . .	£75	10	0	Three months .	£160	0	0
Three months . .	24	10	0	On demand . .	180	0	0
Three months . .	76	0	0				

(*C.A., Inter.*)

9. If you accept a bill payable at Provincial Bank, Dublin, what further steps are necessary to make the bill payable on presentation at its due date ? (*C.A., Inter.*)

10. In regard to a bill of exchange, what is meant by the following operations :—

(*a*) Retiring ;
(*b*) Discounting ;
(*c*) Accepting ;
(*d*) Noting ;
(*e*) Dishonouring ?
(*C.A.*, *Inter.*)

11. What are the implied undertakings entered into by (*a*) the drawer, (*b*) the drawee, and (*c*) the indorser of a bill of exchange ? (*S.A.A.*, *Inter.*)

12. What is the difference between "jointly" and "jointly and severally" ? Draft *pro forma* promissory notes showing both forms. (*C.A. Irish, Inter.*)

13. What do you understand by the negotiation of a bill ? Explain the various ways in which a bill of exchange may be discharged. (*S.A.A.*, *Inter.*)

14. What is—

(*a*) A blank indorsement;
(*b*) A special indorsement;
(*c*) A restrictive indorsement of a bill of exchange ?

Give examples. (*S.A.A.*, *Inter.*)

15. What is a bill of exchange ? Draft a bill receivable at four months' date with a qualified acceptance, showing the stamp duty necessary, and state the date on which it will be due to be met. (*S.A.A.*, *Inter.*)

16. What advantages are possessed by a bill of exchange over other methods of payment ? (*R.S.A.*, *Stage I*, *Elem.*)

17. On 15th February 1925, John Falkner, Birmingham, sold goods valued £600 to Thos. Masefield, of Leicester, and he drew a bill upon him on 4th March at three months' date. Masefield accepted the bill, and on 7th April Falkner discounted it at his bank at 6 per cent. per annum. Just before the bill fell due Masefield asked Falkner to withdraw the bill at maturity, sending him a cheque for £100, and saying he would accept two fresh bills each for half the amount still due, one at two months and one at three months, with interest at 8 per cent. per annum added. To this proposal Falkner agreed.

Write out the two fresh bills which Masefield accepted, and indicate the arrangements Falkner had to make with his bank on the date of maturity of the first bill. (*R.S.A.*, *Stage II*, *Inter.*)

18. A bill broker purchases a £1000 bill with 93 days to run, on the basis of a discount rate of 3½ per cent. per annum, and sells it to a bank on the same day at a discount rate of 3⅜ per cent. What profit does he make ? (*R.S.A.*, *Stage II.*)

19. A six months' interest-bearing note for £1000, bearing interest at [illegible] per cent. per annum, is sold for £1019 14*s.* 0*d.* when it has three months yet to run. The purchaser bought on the basis of a discount rate. What was this rate ? (*R.S.A.*, *Stage II*, *Inter.*)

20. What are the uses of Bills of Exchange to (*a*) Debtors, (*b*) Creditors ? (*R.S.A.*, *Stage II*, *Inter.*)

21. In what ways may a bill of exchange be dishonoured ? What are the rights of a holder in due course of a dishonoured bill of exchange against the parties to the bill, and what must he do before he can exercise those rights ? (*C.A.*, *Inter.*)

CHAPTER 41

CHEQUES AND SIMILAR DOCUMENTS

A CHEQUE is a bill of exchange drawn on a banker, payable on demand (*Bills of Exchange Act*, 1882, *Section* 73). As will be seen from this definition, a cheque is merely a special form of bill of exchange, and, in general, the provisions of the *Bills of Exchange Act* governing bills apply also to cheques. There are, however, a number of special points in which the law relating to cheques differs from that relating to other types of bills of exchange.

"Stale" Cheques.

So far as the drawer's liability is concerned, Section 45 (2) of the *Bills of Exchange Act* (see page 604) does not apply to cheques, which are governed by Section 74 (1). This Section provides that where the drawer of a cheque suffers damage through delay in its presentment, *e.g.*, by the failure of the bank on which the cheque was drawn and at which there were funds to meet it, he is discharged to the extent of such damage. In such a case, the holder of the cheque becomes a creditor of the banker to the extent to which the drawer was discharged. In the absence of such damage, the drawer of a cheque remains liable on it for six years after its issue, but it is the practice of bankers to return "stale" cheques that appear to have been in circulation for more than six or twelve months.

For purposes of *negotiation*, a cheque (like any other bill on demand) is deemed to be overdue when it has been in circulation for an unreasonable time. What is an unreasonable time for this purpose is a question of fact, but in one case the fact that a cheque bore a date ten days prior to the date of negotiation was held to prevent the transferee from becoming a holder in due course.

Post-Dated and Ante-Dated Cheques.

Cheques are sometimes drawn bearing a date subsequent to the actual date of issue. They are then said to be "*post-dated.*" The object of post-dating (when it is intentional) is usually to delay payment pending collection of funds against which the cheque is drawn, or it may be that the drawer does not wish the payee to receive payment until a later date. The

banker on whom such a cheque is drawn will not pay it until the date arrives which is marked thereon. Strictly, a post-dated cheque has the same effect as a bill payable at a fixed future date and ought therefore to bear an *ad valorem* stamp, but in practice the usual twopenny stamp is considered sufficient.

Ante-dated cheques are those which are drawn bearing a date earlier than that on which they are issued. This usually occurs by accident and has no practical effect other than to cause the cheque to appear to be stale.

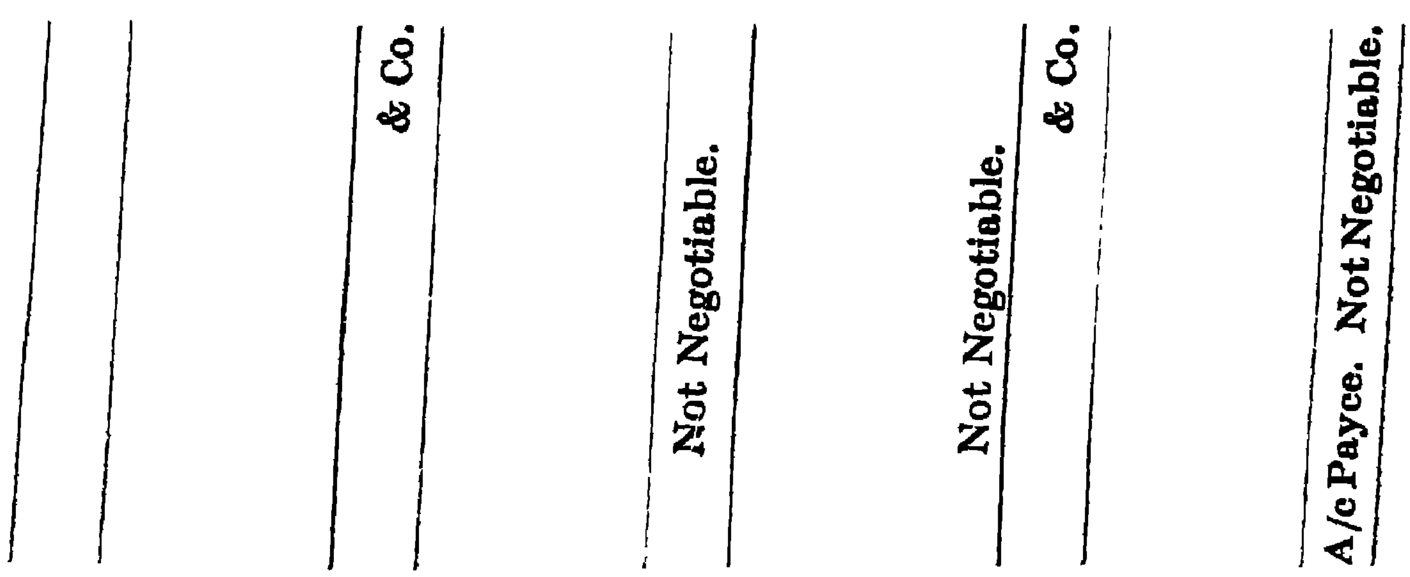
By Section 13 of the *Bills of Exchange Act* a cheque is not invalid by reason only that it is post-dated, ante-dated or bears the date of a Sunday. In the latter case the cheque will not be paid by the banker on whom it is drawn until the following Monday.

Crossed Cheques.

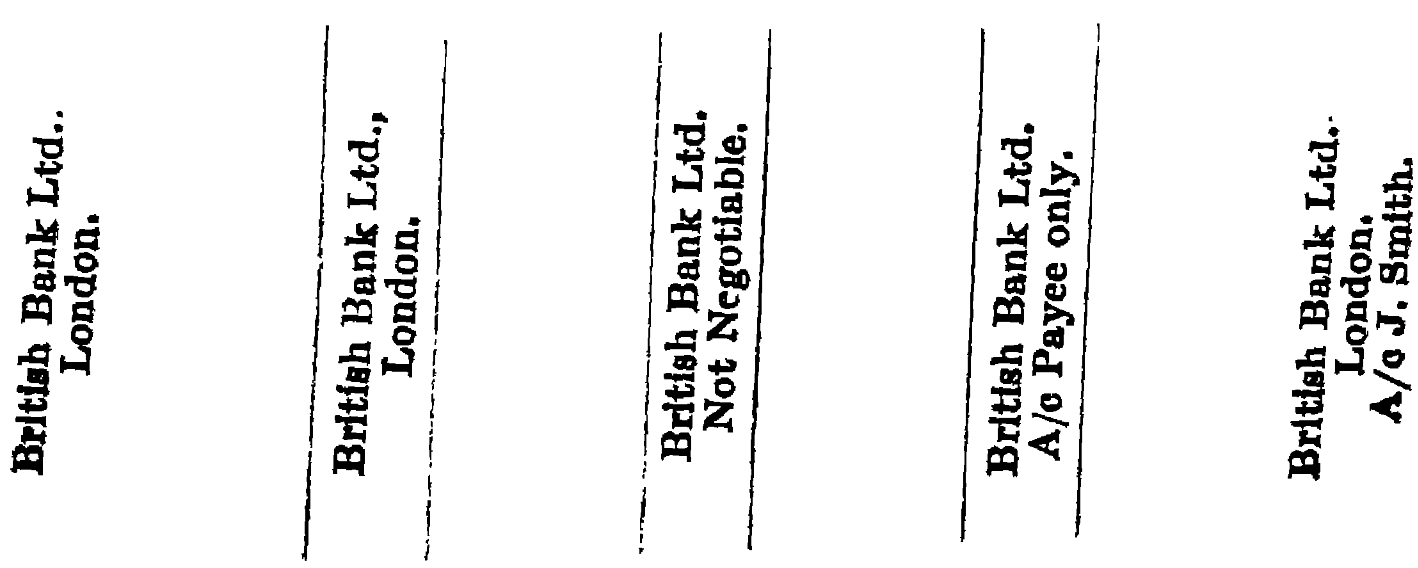
Amongst the methods adopted with the object of making cheques a safe form of payment, crossing is perhaps the most important. A crossing may be either "*general*" or "*special*."

GENERAL CROSSING.—Where a cheque bears across its face (*a*) the words "*and company*," or any abbreviation thereof between two parallel transverse lines, either with or without the words "*not negotiable*," or (*b*) two parallel transverse lines simply, either with or without the words "*not negotiable*," that

SPECIMENS OF GENERAL CROSSINGS.



SPECIMENS OF SPECIAL CROSSINGS



addition constitutes a crossing, and the cheque is crossed *generally* [*Section* 76 (1)].

SPECIAL CROSSING.—Where a cheque bears across its face an addition of the name of a banker, either with or without the words "*not negotiable*," that addition constitutes a crossing, and the cheque is crossed *specially* and to that banker [*Section* 76 (2)].

When a banker pays a cheque drawn on him which bears special crossings to more than one banker (other than an agent for collection), or pays a cheque which is crossed generally otherwise than to a banker, or pays a cheque crossed specially otherwise than to the banker to whom it is crossed (or to his agent for collection), he is liable to the true owner for any loss sustained by the latter owing to the cheque having been so paid (*Section* 79). But where a banker pays a cheque on which a crossing has been altered or obliterated, and the alteration or obliteration is not apparent, he is protected by the same Section from liability both to his customer and to the true owner.

It will be seen from the above that where a cheque is crossed generally it will not be paid by the banker on whom it is drawn, except through the intermediary of another banker; and, if it is crossed specially, the drawee banker will pay it only through the banker named in the crossing.

"NOT NEGOTIABLE" CROSSINGS.—Where a person takes a crossed cheque which bears on it the words "*not negotiable*," he can neither obtain for himself nor give to anyone else a better title to the cheque than was possessed by the person from whom he took it (*Section* 81).

In other words, a cheque crossed "not negotiable" loses its natural quality of negotiability, and if it is lost or stolen, no person, other than the true owner, can acquire a good title to it.

Not Transferable Cheques.

The fact that a cheque is crossed "not negotiable" does not in any way restrict its transferability: the only effect of the words is to cause a defect in the title of any holder to affect all subsequent holders. The best ways in which a bill or cheque may be made non-transferable are by drawing it in the form "*Pay X only*" or by writing across its face the words "*not transferable*," with the words "order" or "bearer" struck out (if they appear on the cheque form). A bill or cheque in either of these forms is absolutely incapable of valid transfer.

The significance of the words "not negotiable" used on an uncrossed cheque or on a bill is doubtful, but it is best to regard the instrument as non-transferable.

"Opening" a Crossing.

Where a trader desires to make a payment by an uncrossed (or "open") cheque, but all the cheque forms in his cheque-book bear printed crossings, or where he has sent a crossed

cheque to a creditor and the latter intimates to him that he has no banking account and therefore desires an "open" cheque so that he may cash it over the counter, the trader may "open" the crossing on any such cheque by writing against the crossing the words "Please pay cash," accompanied by his full signature or initials. Although this practice is prevalent, it is open to considerable risk, for, if a crossed cheque is stolen, it is a comparatively easy matter for the thief to write the necessary words and forge the drawer's signature or initials, taking as his model the specimen of the drawer's signature already appearing on the cheque. For this reason it has been announced by the London Clearing Bankers that no opening of a crossing will be recognised unless the alteration is accompanied by the *full signature* of the drawer, *and the cheque is presented for payment by the drawer himself or by his known agent.*

Alteration of Cheques.

Sometimes the drawer of a cheque wishes to alter its tenor after he has written it out, and in such circumstances he should append his full signature to any alterations he makes. In practice, however, banks will usually accept the drawer's initials as sanction for minor alterations.

If a cheque is materially altered without the consent of the drawer, the provisions of Section 64 of the *Bills of Exchange Act* apply (see page 605). But, since the customer of a bank is under an implied obligation to use reasonable care in drawing cheques so as not to involve his banker in any loss directly traceable to carelessness on his part, he cannot deny the right of his banker to debit him with the full amount of a cheque where that amount has been fraudulently raised and the alteration has been facilitated by the customer's negligence, as where he has left blank spaces when filling in the cheque.

This principle applies also to other alterations. Consequently, the customer should fill in his cheque so as to render difficult *any* alteration (*e.g.*, the payee's name).

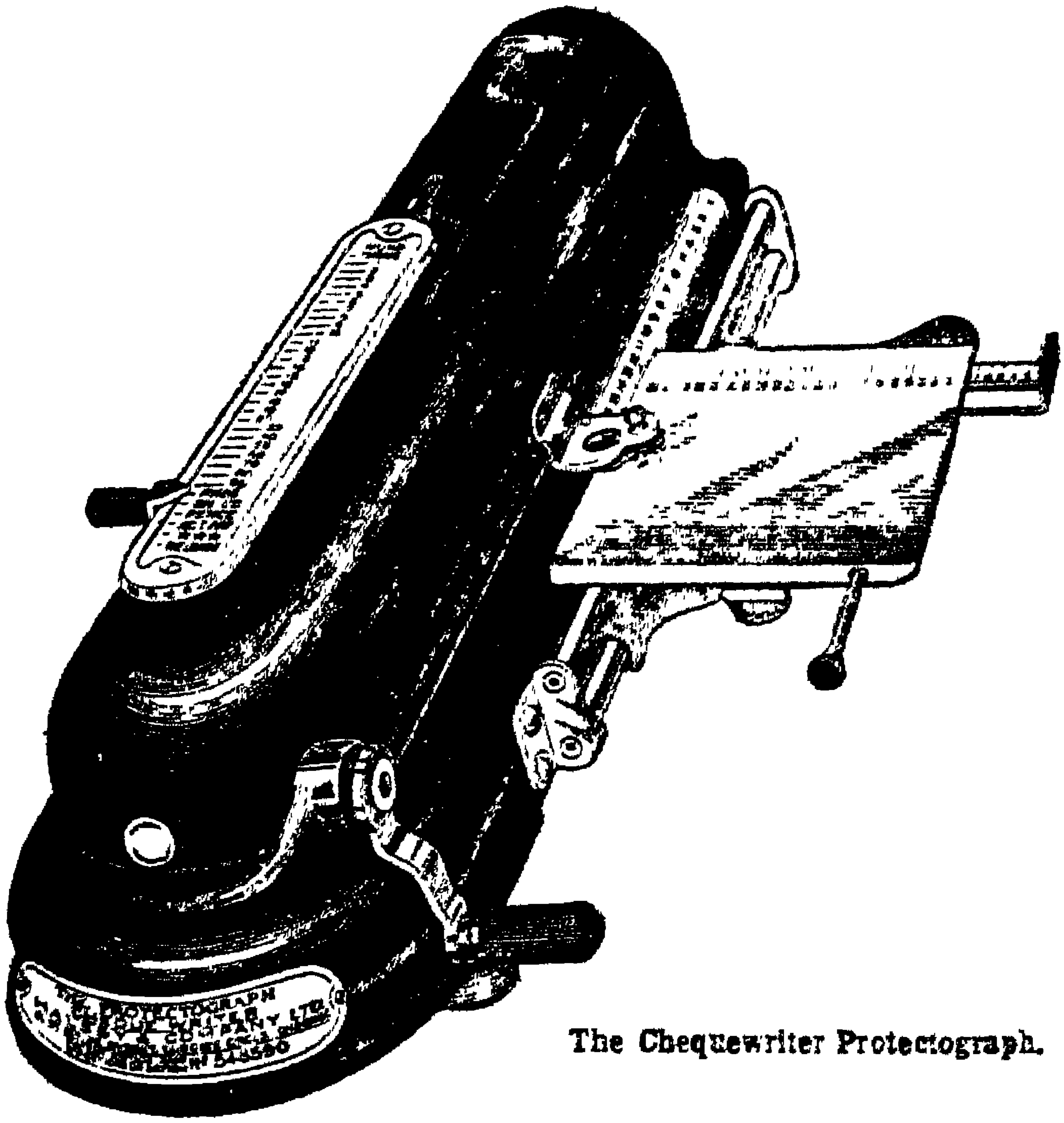
Chequewriter.

In order to prevent loss by the fraudulent alteration of their cheques, many firms now make use of a mechanical device known as a *chequewriter*, which prints the figures and written amounts in such a way that they are rendered almost unalterable. The figures and words are not merely printed on the face of the cheque but are also perforated or shredded into the paper. The amounts are printed in red ink and the denominations in black.

Still greater safety may be attained by the use of another device known as the *Protectograph*, which perforates the cheque with the words "Not over ...... Pounds," according to the amount for which it is drawn.

One of the most useful machines available for these purposes

is the *Chequewriter Protectograph* (see figure below), which combines the two operations described above. This machine may be used also for the preparation of dividend or interest warrants



The Chequewriter Protectograph.

" Blank " Cheques.

It frequently happens that a person wishes to send a cheque in payment of a debt the exact amount of which he does not yet know. For this purpose he may send what is known as a " *blank* " cheque, *i.e.*, one drawn in the usual way, but with the amount blank, so that the payee may fill in the cheque for the requisite amount. As a safeguard against fraud in such cases it is usual for the drawer to mark the cheque with a limit to the amount for which it is to be drawn, as by writing words such as " Under Ten Pounds " or " Not Over Five Pounds " across the top or by the side of the crossing.

Remittance of Cheques by Post.

In remitting cheques by post, the sender should take all practicable precautions against any loss that may arise from miscarriage or theft. Even if the post is the agent *of the recipient*, the sender must, if he is to protect himself, comply with any instructions given him by the addressee as to the manner in which the cheques are to be made out (see page 565). He should, therefore, take all possible precautions. Where the post is the

agent *of the remitter*, the latter is not deemed to have paid his debt (even conditionally) until the cheque comes into the hands of the payee, and, if the cheque is lost or stolen in course of post, he runs the risk that the cheque may be paid by his banker on presentation by some person other than the payee or true owner, in which case the banker will probably be able to debit the drawer's account, although the latter will still remain liable to the payee.

Unless the creditor makes a stipulation to the contrary, any cheque remitted through the post should be drawn payable to order and not to bearer. As we have seen, a cheque payable to order cannot be validly negotiated until it has been indorsed by the payee; if a cheque so drawn is stolen, it is necessary for the thief to forge the payee's indorsement, and this forgery will prevent the passing of a good title But even so, there remains the risk that the cheque may be presented and paid before the drawer has been notified of the loss and has had an opportunity of countermanding payment.

As an additional safeguard, therefore, all cheques sent through the post should be crossed. This affords a measure of security in that a crossed cheque can be paid only through the medium of a bank; and bankers will not usually collect cheques except on behalf of persons known to them. Moreover, where the name of the payee's bank is known, the cheque should be crossed *specially* to that bank.

The addition of the words "not negotiable" to the crossing affords little additional security to the drawer in the case of a cheque payable to order, but is a very valuable safeguard where it is desired to send by post a cheque payable to bearer or one on which the last indorsement is in blank.

The words "not transferable" are seldom employed, as their use restricts the payee's right to negotiate the cheque.

As a final safeguard the words "account payee," or similar words, may be added to the crossing on a cheque. Such an addition constitutes a direction to the collecting banker to place the proceeds of the cheque only to the account of the named payee, and disregard of these instructions *may* render the collecting banker liable for negligence.

Payment by Cheque.

Where a debtor hands to a creditor a bill or cheque in payment of a debt, discharge of the bill or cheque (see page 606) operates as a discharge of the debt. This is so even if the instrument is for a smaller amount than the debt owing, unless the creditor expressly stipulates that he receives the instrument in part payment only.

But until the bill or cheque is discharged, it operates as a *conditional* payment only, unless, of course, the creditor agrees to take it in final payment. The condition attaching to the payment is that the debt will be revived if the bill or cheque is

not duly honoured on presentment to the drawee. But until the instrument has been duly presented and dishonoured the creditor's right of action against the debtor is suspended. In the case of a bill other than a cheque, delay in presentment will also discharge the drawer and indorsers from liability in respect both of the bill and of the consideration for which the bill was given, but delay in the presentment of a cheque will not discharge the drawer except so far as he has suffered damage by the delay.

THE PAYING BANKER

Since the obligation to honour cheques is one of the foremost duties owing by a banker to his customer, it is imperative that all persons opening banking accounts should have an exact knowledge of the nature and extent of this obligation, and of the duties and liabilities of both banker and customer.

The Banker's Duty to pay Cheques.

A banker is bound to honour cheques drawn by his customer to the extent of the latter's credit balance on current account, or to the limit of an agreed overdraft, provided that (*a*) the cheques are drawn in correct and unambiguous form, and purport to be properly indorsed, and (*b*) that there is no circumstance which legally releases the banker from his duty or authority to pay.

Termination of the Banker's Duty.

The banker is released from his duty to pay cheques in the following circumstances :—

(1) Where the customer has countermanded payment ;
(2) Where the banker has received notice of the death or insanity of the customer ;
(3) When a receiving order is made against the customer, or when the banker receives notice of the presentation of a bankruptcy petition against the customer. On receipt of reliable notice that his customer has committed an available act of bankruptcy, the banker may refuse to honour cheques presented by anyone other than the customer himself ;
(4) In the case of a registered company, the presentation of a winding-up petition or the passing of a resolution to wind up ;
(5) Notice that the customer is an undischarged bankrupt ;
(6) Service of a garnishee or other order attaching the customer's credit balance ;
(7) Notice of an assignment by the customer of his credit balance ;
(8) Notice that the customer is applying the funds in breach of a trust ;
(9) Notice of a defect in the title of the person presenting the cheque.

Countermand of Payment.

It has already been pointed out that a banker's duty to pay his customer's cheque is terminated on receipt of instructions from his customer countermanding or "stopping" payment, as may happen, for example, where a trader who has sent a cheque to a creditor in payment of a bill notifies the bank that the cheque has been lost, and gives the bank instructions not to pay the cheque. If the cheque is thereafter presented for payment, it will be returned with the answer, "Orders not to Pay" or "Payment countermanded."

In this way there is some protection against loss by theft, for if the cheque was unindorsed when lost it can be negotiated only under a forgery and the transferee will get no title and will be unable to proceed against the drawer when payment is refused. If, however, the cheque before loss was drawn payable to bearer or indorsed in blank, the bearer has every right to payment (unless he is the finder or thief) and can compel the drawer to pay. Even in this case, however, the holder has no title if the cheque is crossed "not negotiable."

Thus the object of stopping a cheque is to prevent the thief or finder from obtaining payment. The stopping must therefore be performed as soon as possible, but the only person entitled to countermand payment is the drawer. An indorser who has lost the cheque has no such right: his best course is to inform the banker of what has happened and at the same time to inform the drawer, so that the latter may stop payment. If this is done and the cheque is presented to the banker before he has heard from the drawer, he will usually postpone payment pending confirmation from the latter.

In stopping a cheque the drawer should be very careful to give the exact description of the instrument to the banker. The chief details are the number, amount, name of payee and date. Should he by mistake give the banker the wrong number he will not be able to make any complaint because his banker stops the wrong cheque and pays the one which should have been stopped. The number is perhaps the most important detail.

Provided, however, that correct instructions are given to the banker, the latter must obey them, and if he ignores them and pays the cheque he will have no right to debit his customer.

Some traders make a habit of drawing cheques, handing them in payment to creditors and then stopping payment, perhaps because they have some complaint against the goods. Apart from being bad business policy, this action does not relieve the drawer of his liability on a cheque, and it *may* give rise to his prosecution for obtaining money or goods on false pretences, in the same way as the action of a person who draws cheques knowing that they will be dishonoured either for lack of funds or because he has no account with the drawee bank.

Forgery of the Customer's Signature.

If a banker pays a cheque on which the *drawer's* signature is forged, he cannot normally debit the customer's account with the amount of the cheque, since he has paid away the money without his customer's authority. The sole exception to this rule arises where the customer by his negligence, or by his wilful silence, has so prejudiced the banker's position that he is *estopped* from setting up the forgery. But the customer's negligence must be such that the forgery can be shown to be a natural and direct consequence thereof.

Forgery of an Indorsement.

Where the banker pays a cheque on which the payee's or an indorser's signature has been forged, such payment would not, in the absence of statutory provision to the contrary, operate as a payment in due course (see page 606), discharging the cheque and giving the banker a right to debit his customer's account. Moreover, the banker would be liable to the true owner for conversion, *i.e.*, wrongfully dealing with funds belonging to that true owner.

But since it is obviously impossible for any banker to verify the authenticity of the indorsements on all cheques presented to him, statutory protection in this respect is afforded him by Section 60 of the Bills of Exchange Act. This Section provides that a banker who pays a cheque in good faith and in the ordinary course of business is deemed to have paid the cheque in due course. In regard to crossed cheques, Section 80 protects a banker from liability to the true owner if he pays in good faith, without negligence, and in accordance with the terms of the crossing. The latter Section also protects the drawer if the cheque has come into the hands of the payee.

"Marking" Cheques.

A cheque is said to be "marked" when it bears the signature or initials of the drawee banker, sometimes accompanied by words such as "Good for payment if presented before......" Such a marking indicates that the cheque will be duly honoured when ultimately presented for payment.

Cheques are most commonly marked in this manner at the request of the collecting banker, when they are received too late in the day for clearance through the usual channels. It is considered that in this case the marking constitutes constructive payment such as to impose on the drawee banker an obligation to pay the cheque when re-presented. Consequently, the drawer cannot effectively countermand payment of a cheque that has been so marked.

Cheques are also sometimes marked by the drawee-bank at the request of the drawer in cases where the payee has asked for

some token that the cheque will be paid on presentment, as where it is tendered in exchange for the title-deeds of land. Although such marking probably imposes no legal liability on the drawee bank, the latter is, of course, morally bound to pay the cheque when presented, and it is unlikely that the drawer could effectively countermand payment of the cheque. A better practice in these circumstances, however, is for the customer to obtain from the banker a banker's draft in exchange for the cheque.

Bankers now refuse to mark cheques at the request of the payee or other holder, and it is the usual practice, when such a request is made, for the banker to offer his own draft in payment of the cheque presented.

THE COLLECTING BANKER

A banker who collects a cheque bearing a forged indorsement, or a cheque to which the person for whom he collects has a defective title, is, at Common Law, liable to the true owner for conversion. The existence of a liability of this nature, without some measure of protection, would obviously be an impossible position, and the Common Law has therefore been modified through the *Bills of Exchange Act*

Protection of the Collecting Banker.

Where a banker receives payment for a customer of a cheque crossed generally or specially to himself, and the customer has no title or a defective title thereto, the banker is protected from liability to the true owner of the cheque if he collects it in good faith and without negligence (*Section* 82).

To enable the banker to obtain the protection of this Section, it is necessary for him to show that—

(*a*) The cheques were *crossed* at the time when they were paid in: crossing by the banker himself is not sufficient;
(*b*) The cheques were collected *for a customer*;
(*c*) The cheques were collected *in good faith and without negligence.*

Collection for a Customer.

The *Bills of Exchange Act* gives no statutory definition of the term "customer," but it would appear that, although a person becomes a customer as soon as he opens an account with the banker, he does not become a customer merely by asking the banker to collect cheques on his behalf, even though this arrangement is one of long standing.

The banker is not deemed to have collected on behalf of his customer in those cases where the banker has become a holder for value of the cheque and is therefore receiving payment on his own account, and not on account of his customer. A banker receives payment on his own account of a cheque paid into the credit of a customer's account when: (*a*) he gives the customer the right to draw against the proceeds of the cheque before clearance, and (*b*) where the cheque is paid in expressly in reduction of an overdraft which the banker has requested the customer to reduce. On the other hand, a banker is deemed to receive payment for a customer within the meaning of Section 82 notwithstanding that he credits his customer's account with the amount of the cheque before it has been cleared (*Crossed Cheques Act*, 1906). It has been suggested, however, that this protection does not apply where the banker has given the customer a *right to draw* against the proceeds.

Where a banker gives cash for a crossed cheque drawn upon another banker, he is not, of course, protected by Section 82. In such circumstances, he is in the same position as any other type of transferee: and if the cheque has been stolen he stands to lose unless the conditions of Section 29 are fulfilled (see page 601), in which case he becomes a holder in due course, with every right to enforce payment of the cheque.

Negligence.

The general test of negligence upon the part of a banker who collects a cheque is whether the circumstances surrounding the payment-in of the cheque were such as to put a reasonable man upon enquiry. It follows that no hard-and-fast rules can be laid down as to what constitutes negligence, since this is a matter to be determined upon the facts of each case. Nevertheless, the following circumstances in which the courts have held bankers to be negligent illustrate the general principles which are applied in consideration of the matter:—

(1) Collection for the private account of a company official cheques payable to the company and indorsed by him as agent of the company.

(2) Omission to obtain and follow up a reference from a new customer.

(3) Collection of a cheque crossed "Account payee" for a person other than the payee named, where the banker was in a position to make enquiries.

(4) Collection for the private account of a customer of a cheque drawn by him, or by him and another, on behalf of his firm or company.

(5) Omission to verify the authority of a person signing "per pro" in suspicious circumstances.

(6) Omission to verify indorsements on a cheque.

INDORSEMENT OF CHEQUES

It is of the utmost importance that all persons dealing with cheques should ascertain that any indorsements appearing on them are correct in form, as any irregularity in this respect will result in delay in obtaining payment, and, as has already been shown, may deprive a collecting or paying banker of his statutory protection.

General Rules governing Indorsements.

An indorsement must be written on the bill or cheque itself. It must consist of a signature in proper form, which must be spelt in the same way as the name of the payee on the face of the instrument, or of the indorsee of the last special indorsement, and must include the same Christian name or initials; though where the payee's Christian name is expressed, initials will serve in the indorsement, and *vice versa.* Courtesy descriptions or titles must not appear *as part of the signature,* although they may follow it by way of description of the person signing.

If the payee is incorrectly described in the body of the instrument, he should indorse correspondingly, adding, if he thinks fit, his usual signature.

Specimen Indorsements.

The following are examples of the correct and the incorrect manner of indorsing bills payable to certain types of payee. The differences are indicated in italics:—

Payee.	Correct Form.	Incorrect Form.
INDIVIDUALS.		
Mr. J. Smith.	J. Smith *or* John Smith.	*Mr.* J. Smith *or* J. Smith, *Junior.*
Jno. Smith, Esq.	Do. do.	Jno. Smith, *Esq.*
J. Smith, M.D.	J. Smith, M.D., *or* J. Smith.	*Dr.* J. Smith *or* J. *R.* Smith, M.D.
Capt. Smith.	J. Smith, Capt	*Capt.* (J.) Smith.
Mr. J. Smith, Senior.	J. Smith *or* John Smith.	Jno. *Smythe.*
Mr. J. Smith, Junior.	J. Smith, *Junior.*	J. Smith.
AGENTS.		
Mr. J. Smith.	p.p. *or* per pro (Mr.) J. Smith, W. Jones *or* John Smith, by W. Jones, his attorney.	J. Smith, *per pro* W. Jones, *or* *per* J. Smith, W. Jones. (These two forms do not show authority to sign.)

Payee.	Correct Form.	Incorrect Form.
COMPANIES.		
Trading Co., Ltd.	Pro, p.p., For *or* Per pro Trading Co., Ltd., R. Smith, Secretary, Director, etc., *or*	*For* Trading Co., Ltd. R. Smith *Foreman.* (Foremen, cashiers, etc., cannot usually sign for a company.) *or*
	For Trading Co. Ltd. (In Liquidation), P. Smith, L. Jones, Liquidators.	For Trading Co., Ltd. P. Smith, *pro Secretary.* (Authority cannot be delegated.)
FIRMS.		
Messrs. Smith & Co.	Smith and Co. *or* Per pro Smith & Co., Fred Brown.	*Tom* Smith & Co. (This may be a different firm.)
Smith Bros.	Smith Bros.	J. & S. Smith, *or* J. Smith. S. Smith. (These might not be brothers.)
Messrs. Smith.	K. & R. Smith, *or* K. Smith & Sons, *or* Smith Bros., *or* Smiths.	Smith *and Co.* (The persons in the company may not all be Smiths.)
MARRIED WOMEN.		
Mrs. Smith.	J. Smith *or* Jane Smith.	*Mrs.* J. Smith.
Mrs. John Smith.	Mary Smith, wife (or widow) of John Smith.	*Mrs.* J. Smith *or* *Mary* Smith.
Miss Jane Jones (now married).	Jane Smith, *née Jones.*	Jane Jones *or* Jane Smith.
ILLITERATE PAYEE.		
John Smith.	John his X mark Smith. Witness: J. Robinson, Clerk in Holy Orders, 5 London Road, Bedford.	John Smith, X. (*No witness.*)
IMPERSONAL PAYEES.		
Wages, Cash, etc., or Order.	Drawer's Indorsement required.	
Ditto, or Bearer.	No indorsement.	
Income Tax, Borough Rates, etc.	Requires indorsement of a duly recognised official, collector, borough treasurer, etc.	

Payee.	Correct Form.	Incorrect Form.
MISCELLANEOUS.		
J. Smith, only.	J. Smith. (Requires banker's confirmation.)	
Bearer or Order.	No indorsement.	
J. Smith or Bearer.	No indorsement.	
J. Smith or Bearer (Bearer crossed out.)	J. Smith (Must be indorsed.)	

DOCUMENTS ANALOGOUS TO CHEQUES

Some documents commonly used for remitting money do not exactly conform to the legal definition of a cheque. In such cases the rules given in the early part of this chapter do not apply except so far as they are specifically extended by statute to other classes of document.

Conditional Orders.

Many customers, such as railway companies and government departments, make payments by means of documents in the form of cheques, which have a form of receipt attached and instruct the banker to pay the stated sum to a named payee "*provided the attached receipt is duly completed.*"

A document of this nature is not an *unconditional* order and so does not conform with the legal definition of a bill of exchange or cheque. Nevertheless, Section 17 of the *Revenue Act*, 1883, provides that Sections 76–82 (the Crossed Cheques Sections) of the *Bills of Exchange Act* "shall extend to any document issued by a customer of any banker, and intended to enable any person or body corporate to obtain payment from such banker of the sum mentioned in such document, and shall so extend in like manner as if the document were a cheque: Provided that nothing in this Act shall be deemed to render any such document a negotiable instrument." Such documents can therefore be crossed, either generally or specially, and both the collecting and paying banker receive the same protection as in the case of crossed cheques.

The final clause of Section 17 is of particular importance, as the opinion has been expressed that the word "negotiable" must be regarded as having the force of "transferable." If this view is correct a conditional order is available only in the hands of the payee; and collecting and paying bankers are not protected if the document bears evidence of having been transferred.

Cheques with Receipts attached.

Conditional orders of the type described above must be distinguished from those forms of cheque which, although actually unconditional orders, bear a note or memorandum to the effect that a receipt, either attached at the foot or printed on the back of the cheque, must be completed by the payee before the instrument is presented for payment. The receipt is in the usual form, and requires a twopenny receipt stamp if the amount is for £2 or over.

A document of this nature is a perfectly valid cheque, since the direction that the receipt shall be completed forms no part of the order to the drawee banker, but is merely an instruction to the payee. The order is therefore quite unconditional.

Receipts payable at a Bank.

Certain customers, notably Government Departments, issue documents in the form of receipts, which must be signed by the recipient before payment can be claimed from the bank at which they are expressed to be payable. Such documents come within the definition of a "bill of exchange payable on demand" within the meaning of the *Stamp Act*, 1891, and accordingly require a 2d. stamp as a bill, in addition to the ordinary 2d. receipt stamp if their amount is over £2.

No statutory protection is afforded to bankers collecting or paying these documents, for they are not bills or cheques within the definition of the *Bills of Exchange Act*.

Bankers' Drafts.

A banker's draft is an order addressed by one branch of a bank to another branch, or to the Head Office, or *vice versa*. Since all branches of a bank in this country constitute one legal entity, a banker's draft cannot be regarded as a bill of exchange or cheque, for it is not "drawn by one person on another." A banker paying one of these drafts is protected, provided that he acts reasonably and in good faith, by Section 19 of the *Stamp Act*, 1853, which relates to drafts or orders drawn on a banker and payable to order on demand.

By virtue of the *Bills of Exchange Act* (1882) *Amendment Act*, 1932, bankers' drafts can now be crossed. The effect of the Act was to extend to these drafts the provisions of Sections 76–82 of the 1882 Act. Hence, any banker collecting or paying a *crossed* draft is in the same position as if it were a cheque (see pages 623–624).

Dividend and Interest Warrants.

Both dividend and interest warrants, provided they conform with the legal definition of a cheque, are subject to the provisions of the *Bills of Exchange Act* and the common law concerning

cheques. Moreover, even if a dividend warrant is issued in such a form that it is not strictly a cheque, Section 95 provides that the provisions of the *Bills of Exchange Act* as to crossed cheques shall nevertheless apply to the document. It is probable that the Section would also extend to an *interest warrant.*

QUESTIONS BEARING ON CHAPTER 41

1. What indorsements are required on :—

   (*a*) Cheque payable to a person whose name is wrongly spelt.
   (*b*) Cheques payable to (1) Mrs. Blankley, (2) Dr. Whitely, (3) Messrs. Smith.
   (*C.P.A., Inter.*)

2. What are the differences between a Cheque and a Bill of Exchange? What is the effect of crossing a cheque "Not negotiable"? (*London Chamber of Commerce, Higher Certif.*)

3. Explain the distinction between a crossed cheque payable to "J. Jones or order," and one payable to "J. Jones or bearer." (*C.A., Inter.*)

4. Draw a form of cheque—making it as "safe" as possible—for £100 sent by A. Balham to B. Tooting, and explain the meaning of the steps you have taken in order to render it safe. (*A.I.C.A., Inter.*)

5. Give an example of a "Not negotiable" crossing to a cheque, and explain the effect of such a crossing. (*London Chamber of Commerce, Certif.*)

6. A trader in Bristol owes £50 to a trader in Newcastle-on-Tyne. Describe the different ways in which the debtor can remit that sum to his creditor?

   Which of these ways is the safest, and why? (*R.S.A., Stage I.*)

7. Enumerate some of the circumstances in which a banker may dishonour a cheque. (*C.A., Ireland, Inter.*

8. State the value of the "cheque" system to the business community. When may a banker refuse to pay a cheque? (*London Chamber of Commerce, Higher.*)

9. What is—

   (i) A marked cheque;
   (ii) A stale cheque;
   (iii) A post-dated cheque? (*A.I.C.A.*)

10. Enumerate the principal precautions to be taken when remitting cheques through the post.

11. What protection is afforded to a banker who pays a cheque bearing a forged indorsement?

12. Section 82 of the Bills of Exchange Act protects a banker collecting cheques for a customer "in good faith and without negligence."

    Explain the meaning of the term "negligence" as used in this Section.

CHAPTER 42

THE FOREIGN EXCHANGES

[This chapter is concerned with Foreign Exchange under normal conditions. The main features of the considerable changes necessitated by war conditions are briefly mentioned in the text, but they do not in any way invalidate the general principles.]

JUST as the machinery of the banking system enables debts between traders to be set off and cancelled, so the foreign exchange market provides the machinery for the settlement of international, as distinct from domestic, indebtedness.

The Scope of "Foreign Exchange."

The settlement of international indebtedness is, however, complicated by the fact that different nations have different units of money and that consequently it is necessary to establish a ratio or "*rate of exchange*" between the units of different countries; and also by the fact that the distance separating various countries renders the transfer of gold or of any other commodity of international value a slow and expensive process.

Thus in the study of Foreign Exchange it is necessary to consider not only the machinery by which international indebtedness is discharged, but also the factors which determine, and cause variations in, the relative values of different currencies.

How International Indebtedness is Discharged.

We have already seen how the use of a bill of exchange enables debts due from one country to another to be settled without any transfer of coin. If bills of exchange are used as a means of international settlement, there are, in general, two ways in which they may be employed :—

(*a*) The creditor may draw a bill on his debtor and sell it to his bank or in the local exchange market ;

(*b*) The debtor may purchase a bill payable in the currency of the creditor, and remit it to the creditor in settlement.

In other words, a debt due from France to this country may be settled either by a sale of francs in London, or by a purchase of sterling in Paris.

The Basis of Exchange Rates.

As in the case of any other commodity, the value of one foreign currency in terms of another (*i.e.*, *the rate of exchange*) is determined by the relative strengths of demand and supply.

The factors entering into this demand and supply are discussed below, but it may here be said that the tendency is for these factors so to adjust themselves that the exchange rates rest at what is known as the *Purchasing Power Parity.* That is to say, if a representative block of goods, which costs £1 in England, costs 125 francs in France, the Purchasing Power Parity between French and English currency is 125 francs per £, and the rate of exchange will tend to rest at this figure. The reasons for this are obvious. Suppose, for example, that in the conditions mentioned the rate of exchange temporarily rose to 150 francs per £. It would then pay Englishmen to purchase goods from France, while Frenchmen would be unwilling to buy goods from England. As a result, there would be larger purchases of French currency in England and fewer purchases of sterling in France, conditions which would force up the exchange value of French currency until the Purchasing Power Parity of 125 francs per £ was reached.

This theory is fundamental, and in it is to be found the explanation of most of the problems of foreign exchange.

In the instance given, where sterling is quoted at a higher value than is justified by price levels, sterling is said to be "*overvalued*" in terms of francs on the exchange-market, whilst francs are said to be "*undervalued*" in terms of sterling. When a country's currency is overvalued its exports tend to fall off and its imports to increase. When its currency is undervalued its exports tend to increase and its imports to decrease; exporters are, in fact, said to be benefiting from an "exchange bounty." The operation of these influences on the direction of trade tends to bring exchange rates into line with price-levels. If anything is done to obstruct the adjustment, dislocation is inevitable.

The Mint Par of Exchange.

As between any two countries whose currencies are based on the same metallic standard, it is possible to calculate a basic rate of exchange from the legal metallic contents of the standard coins of the two countries. This basic rate is known as the *Mint Par of Exchange*, which is defined as: "The exact equivalent of the currency unit of one country in terms of the currency of another country having the same metallic standard, determined by a comparison of the weights and finenesses of the respective standard coins as fixed by the laws of the two countries concerned."

For example, the English sovereign contains 7·322381 grammes of pure gold, while the Swiss 20-franc piece contains 5·80646 grammes of pure gold. By a simple comparison of these figures it is possible to calculate the mint par between this country and Switzerland as follows:—

$$\frac{7{\cdot}322381 \times 20}{5{\cdot}80646} = 25{\cdot}22152 \text{ francs per £.}$$

Clearly, it is possible to calculate a mint par of exchange only between two gold standard countries, or between two silver standard countries. As between a gold standard country and a silver standard country there is no such basis of comparison.

Gold or Specie Points.

It is obvious from the above, that if gold could be sent from one gold standard country to another without delay or expense, the exchange rates between such countries would remain fixed at the mint par. A debtor in Switzerland who had to purchase sterling would not pay more than 25·2215 francs for each £1 if he could purchase and remit £1's worth of gold for that figure, nor would a debtor in England accept less than 25·2215 francs for each £1 if he could remit gold at that rate.

But the transmission of gold involves expense in the way of freight, insurance and other charges, besides which a certain amount of interest is lost while the gold is in transit. It is therefore possible for the exchanges between gold standard countries to fluctuate within the limits imposed by the cost of remitting gold in either direction.

Thus, where two countries are on a gold standard, the price of one currency in terms of the other, *i.e.*, the rate of exchange, may fluctuate between the limits set by two points, above and below the mint par, at which it is as cheap to pay debts in gold as by any other form of remittance. These points are known as the *Gold* or *Specie Points.* The point at which gold tends to leave a country is known as the *Export Specie Point*, while the point at which gold tends to flow into a country is known as the *Import Specie Point.*

Restrictions on Gold Movements.

The specie points are, of course, operative only when gold is freely available for export in each centre concerned. For many years before the Great War, London was virtually the only free gold market in the world, for in other markets, especially in Berlin and Paris, obstacles were always put in the way of gold exports. Since that time the general abandonment of the gold standard has rendered specie points wholly inoperative; but, in the decade after 1918, when most countries strove to restore and to maintain the gold standard, gold moved with, if anything, greater freedom than before 1914.

The world economic crisis of 1931–33 changed these conditions. Many countries, including Great Britain, went off gold, and to-day there is no country operating a free gold standard.

As a result, the corrective effect of gold movements on the world's exchanges is almost entirely absent, and the rates of exchange between erstwhile gold currencies are merely left to find their own level according to the conditions of demand and

supply ruling in the world's foreign exchange markets. As mentioned earlier, the long term tendency is for rates to move to the purchasing power parities.

Variations in Specie Points.

It will be clear from the above that two groups of factors must be considered when calculating the specie points between any two countries: (*a*) the prices at which gold may be purchased in the exporting country and sold in the importing country; and (*b*) the expenses incurred in transferring the metal.

Since the specie points are operative only between countries that have adopted a gold specie or gold bullion standard—which involves an obligation on the part of the Central Bank concerned to buy and sell gold at fixed prices—the items in the first group of factors are not subject to great variations.

The second group of factors is less certain. It includes items such as freight, insurance, packing and carriage, together with commission to the bullion broker through whom the shipment is arranged, all of which are *variable*. The allowance made for interest will also vary according to the rates prevailing in the money markets concerned and the time taken in transit.

Further, it must be understood that gold shipments are not undertaken by ordinary merchants and traders; they are essentially matters for highly experienced specialists with unusual facilities at their disposal, and the ultimate *outturn* of a shipment (*i.e.*, the *net* credit in foreign currency received in respect of a consignment of gold after paying all expenses and allowing for loss of interest) depends very materially on the facilities and resources which the shipper can command.

Methods of Transferring Funds Abroad.

There are, at the present time, a number of recognised methods of transferring funds from one financial centre to another. The principal characteristics of the most important of these are briefly described below, and it may be stated that the rates of exchange applied to the different types of credit remittance vary chiefly according to the facility they offer for obtaining payment.

Bills of Exchange (B/E).—This term covers bills drawn on demand or at sight (*short* bills), bills at term (*long* bills), cheques and bankers' drafts. The number of bills drawn *and* accepted by traders (*trade paper*) has tended to decrease during recent years, while the number of bills drawn or accepted by banks and financial houses (*bank paper*) has increased greatly, indicating the tendency towards the substitution of bank credit for commercial credit which arose during the critical period of the Great War.

CABLE TRANSFERS OR TELEGRAPHIC TRANSFERS (T.T.).—These are a most important form of remittance, but, as their use requires an elaborate system of authenticating telegrams or cables (there being no signatures to verify), they are, in practice, confined to the members (mostly banks) of the various exchange markets of the world and to the largest commercial concerns. As their name implies, they are a form of "order to pay" expressed in telegraphic form instead of in the form of a bill or cheque.

MAIL TRANSFERS (M.T.).—The Mail Transfer is a form of remittance designed to economise the drawing of cheques or drafts by banks on one another, and to obviate the risk that the funds may fall into wrong hands. It can be classed as a mailed form of telegraphic transfer, embodying instructions to a bank overseas to make a payment to a named payee, and is used mainly between first-class institutions where the payment to the named third party can be effected by a credit to account or by a payment to another bank. Sometimes it is arranged that the instructions shall be sent by air-mail, in which case the remittance is known as an *air-mail transfer* (A.M.T.).

GUARANTEED PAYMENTS OR GUARANTEED MAIL TRANSFERS (G.M.T.).—These are a comparatively recent innovation designed to relieve the purchaser of a sight draft or mail transfer of the risk that the remittance sent by mail may not be delivered to time owing to delay in the arrival of the mail. Since a delay of even one day in the case of large payments means substantial loss, most bankers will now sell payments which they *guarantee* shall be made so many days ahead. The price is calculated from the current rate for cable transfers with due allowance for interest for the number of days which must elapse before the payment is actually made abroad. The banker's instructions to his overseas agent are sent by deferred cable.

STOCK EXCHANGE SECURITIES.—Certain obligations of Governments (in the shape of bonds), and of railway, oil, mining and other industrial companies (in the form of bonds, stocks and shares), are saleable in all the principal financial centres of the world, while the interest coupons are often expressed to be payable in one of several centres at the choice of the holder.

Such coupons are naturally encashed in the centre offering the largest yield in the currency of the holder, and form a common method of remitting funds between two centres, while bonds, stocks or shares, which are quoted on the stock market of the creditor centre, are also utilised by banks and financial houses to replenish their foreign currency balances in the absence of any cheaper form of remittance.

BULLION is, of course, the final means of discharging indebtedness. Its use is, however, restricted to bullion dealers and bankers, owing to (*a*) the highly technical nature of the opera

tion of transfer, (*b*) the high costs of freight, insurance, loss of interest, etc., which can be reduced to practical proportions only in the case of large shipments of precious metal or coin, and (*c*) the fact that, as soon as the price of any foreign currency rises to a point at which a profit can be made by shipping bullion and selling the foreign currency so obtained, the banks are the first to be aware of the state of the market and to seize the opportunity for making a profit.

The Foreign Exchange Market.

The London Exchange Market as at present constituted has no central *venue*, but it comprises two classes of persons—dealers and brokers—who conduct their business from various offices in the City.

The *dealers* consist mainly of the operators in the foreign exchange departments of the banks, through whom all dealings with the public take place; but there are, in addition, several firms of foreign exchange dealers in the City. The dealers do not usually transact business with one another direct; nearly all *market* deals are carried out through the intermediary of various firms of *brokers*, who charge a small brokerage for their services. Each of these brokers specialises in one currency or group of currencies.

Since the outbreak of war in September, 1939, most foreign currency dealings have become subject to Government control. The more important currencies, which can no longer be dealt in on the open market, and official rates are fixed by the Bank of England and all purchases and sales must be made through banks acting as agents of the Bank. Hence, deals in such currencies no longer pass through brokers, but are made between the banks, who receive a small commission. Other currencies are still dealt in on the open market through brokers, at rates determined by demand and supply.

The Foreign Exchange Table.

As a record of the rates or prices at which dealings in various currencies are conducted on the Market, all the leading newspapers publish a list known as the Foreign Exchange Table, which gives the rates ruling in London on the previous day. The table gives a double quotation on each foreign centre, representing the buying and selling prices quoted for the currency of that centre.

Most tables also give columns showing the method of quoting, the centre quoted, the par of exchange, and, for purposes of comparison, the rate ruling on the previous day, or at some other previous date. The majority of the rates quoted are for telegraphic transfers on the centre quoted, but those for India

THE FOREIGN EXCHANGE TABLE.

Centre.	Method of Quoting.	Parity before 20/9/31.	April 19 Sell.	April 19 Buy.	April 20 Sell.	April 20 Buy.
			BANK OF ENGLAND OFFICIAL RATES.			
New York .	Dollars to £	4·86⅔	4·02½	4·03½	4·02½	4·03½
Montreal .	Dollars to £	4·86⅔	4·43	4·47	4·43	4·47
Paris . .	Francs to £	124·21	176½	176¾	176½	176¾
Brussels .	Belgas to £	35	23·85	24·00	23·85	24·00
Geneva .	Francs to £	25·22	17·85	17·95	17·85	17·95
Amsterdam .	Florins to £	12·107	7·53	7·58	7·53	7·58
Stockholm .	Kronor to £	18·159	16·85	16·95	16·85	16·95
Oslo . .	Kroner to £	18·159	—	—	—	—
Buenos Aires	Paper Pesos to £	11·45	17·05	17·30	17·05	17·30
Batavia . .	Florins to £	12·107	7·47	7·55	7·47	7·55
			FREE MARKET RATES.			
Milan . .	Lire to £	92·46	68½–70		68½–69½	
Madrid . .	Pesetas to £	25·2215	38¼ sls.		38¼ sls.	
Lisbon . .	Escudos to £	110	102–104		102–104	
Helsingfors .	Markka to £	193·23	170–200 nom.		170–200 nom.	
Copenhagen .	Kroner to £	18·159	—		—	
Riga . .	Lats to £	22·2215	18 sls.		17¾ sls.	
Kaunas . .	Lits to £	48·66	20 sls.		20 sls.	
Tallinn . .	E. Kroon to £	18·159	14¼ sls.		14¼ sls.	
Budapest .	Pengöes to £	27·82	19¼ sls.		19 sls.	
Belgrade .	Dinars to £	25·2215	180 sls.		180 sls.	
Athens . .	Drachmæ to £	375	535 sls.		535 sls.	
Sofia . .	Leva to £	673·66	285 sls.		285 sls.	
Bucharest .	Lei to £	813·6	800 sls.		800 sls.	
Alexandria .	Piastres to £	97·5	97⅜–97⅝		97⅜–97⅝	
Istanbul .	Piastres to £	110	510 sls.		510 sls.	
Bogota . .	Pesos to £	5·00	5¼ sls.		5¼ sls.	
Rio de Janeiro	Per Milreis	5·899d.	3$\frac{15}{16}$d. sls.		3$\frac{7}{16}$d. sls.	
Montevideo .	Per dollar	51$\frac{1}{16}$d.	25½–27½d.		25½–27½d.	
Valparaiso .	Dollars to £	40	100 sls.		95 sls.	
Lima .	Soles to £	17·38	19¼–21¼		19¼–21¼	
India . .	Per Rupee	18d.	17$\frac{15}{16}$–8$\frac{1}{16}$d.		17$\frac{15}{16}$–8$\frac{1}{16}$d.	
Hongkong .	Pence to $	—	14¾–15d.		14¾–15d.	
Shanghai .	Pence to $	—	3⅞–4⅛d.		3⅞–4⅛d.	
Singapore .	Pence to $	28d.	28$\frac{1}{16}$–$\frac{5}{16}$d.		28$\frac{1}{16}$–$\frac{5}{16}$d.	
Japan . .	Per Yen	24·58d.	15$\frac{15}{16}$–16$\frac{1}{16}$d.		16–16¼d.	

The following are the rates applicable for payments to the Bank of England for the Clearing Offices: Spain, 39·00 pesetas; Turkey, 520 piastres; Italy, 69·50 lire.

and the Far East are for T.T. on London, while the Lima rates are for ninety days' sight drafts on London.

On p. 637 there is a specimen of the table published in the *Financial News*. It shows: (*a*) rates fixed by the Bank of England; (*b*) free market rates fixed by demand and supply, most of the rates are those quoted in London for telegraphic transfers on places abroad.

Dominion and Colonial Rates of Exchange.

Since the sovereign of South Africa or Australia is intrinsically equal to our sovereign, the mint par between Britain and these countries may be expressed as £1=£1, or, as is more usual, £100=£100. Movements on either side of the parities are brought about, as in the case of entirely different currencies, by changes in the relative purchasing powers of the Dominion and Home currencies, while fluctuations are in normal times limited, as in the case of other currencies, by the cost of obtaining and shipping gold from the Home Country to the Dominions, and *vice versa.*

Dominion currencies are not dealt in on the London Foreign Exchange Market, since transactions therein are entirely in the hands of the Dominion banks. The actual method of quoting the rates of exchange between the various Dominions and London has been varied from time to time, but nowadays they are quoted in terms of *Dominion* currency per £100 sterling.

From the table below it will be seen that if, for example, a London trader wished to *buy* a sight draft on Australia, he would obtain £125 1*s.* 3*d.* Australian (*i.e.*, the banks' *selling* rate) for each £100 sterling. On the other hand, a trader could *sell* a sight draft on Australia to the banks at £126 12*s.* 6*d.* Australian per £100 sterling, that being the banks' *buying* rate on the date in question.

Since the Dominion currencies are not dealt in on the London Foreign Exchange Market, the rates or quotations therefor do not figure in the Foreign Exchange Table. The Dominion banks, however, issue their daily lists of rates to the papers, as the following example from the *Times* of 12th February 1940:—

EMPIRE EXCHANGE RATES

The following rates are for £100 London

BUYING RATES

	Demand.	30 Days' Sight.	60 Days' Sight.	90 Days' Sight.
	£ *s.* *d.*	£ *s.* *d.*	£ *s.* *d.*	£ *s.* *d.*
Australia . .	126 12 6	127 2 6	127 12 6	128 2 6
New Zealand .	126 5 0	126 15 0	127 5 0	127 15 0

SELLING RATES

	T.T.			Demand.		
	£	s.	d.	£	s.	d.
Australia .	125	0	0	125	1	3
New Zealand	124	7	6	124	8	9

	Buying.			Selling.		
	£	s.	d.	£	s.	d.
South African Union Territory (T.T.) .	101	0	0	100	5	0
,, ,, ,, (Sight Drafts).	101	8	0	100	5	0
Rhodesia (T.T.)	100	5	0	99	15	0
,, (Sight Drafts)	100	13	0	99	15	0

It will be noted that the Australian and New Zealand currencies are heavily depreciated in terms of sterling, largely as a result of their adverse trade balances caused by the low prices for primary products prevailing in the depression.

Methods of Quoting Exchange Rates.

From the above tables it will be seen that there are three types of rates of exchange: (*a*) those quoted in foreign units per £ sterling, which are known as "*uncertain*" or "*moveable*" rates, *e.g.*, the rates on France, Holland and the United States; (*b*) those quoted in sterling per foreign unit, known as "*certain*" or "*fixed*" rates, *e.g.*, the rates on the Eastern centres—Calcutta, Shanghai, Tokio, etc.; and (*c*) rates quoted at a premium or discount per cent., *e.g.*, those on the Dominions.

Terminology of the Exchanges.

Various terms are used to describe movements in the exchanges, and the exact significance of these terms often depends on which of the methods of quoting is used.

The terms "*rise*" and "*fall*" usually refer solely to movements in *rates*, and have normally no connection with the *value* of the currency concerned. Thus, where a rate is quoted in foreign currency per £, a *rise* in the rate denotes a movement in favour of sterling, and a *fall* means a movement against sterling. But where the rates are quoted in sterling per foreign unit the terms have the opposite significance.

A rate of exchange is described as *favourable* to this country when our £ purchases more foreign money than is denoted by the mint par ratio, or when less of our money has to be given for a foreign unit than the mint par quotation. In the reverse conditions the rate is said to be *unfavourable.*

The maxims "*Buy high, sell low,*" and "*The better the bill, the lower the rate,*" are useful guides where rates are quoted in foreign currency per £. It is better to *buy* francs at 124 per £ than at 123 or any other lower rate; whereas it is better for an Englishman who wishes to sell francs to get as *low* a rate as he can, since he thereby gives fewer francs for each £ he receives in payment.

Long Rates and "Tel Quel" Rates.

In addition to the rates quoted for telegraphic transfers, rates are also usually quoted on the market for cheques and for "long" bills drawn at the usual "usance" on the centre concerned. Thus, New York quotes rates on London for cable transfers, cheques and 60 days' sight drafts. The last rate is known as the *Long Rate.*

Long rates may be calculated from sight rates by adding, or, in the case of "*certain*" quotations, deducting the following allowances from the sight rate :—

(*a*) Interest at the *discount* rate ruling in the foreign centre for the period the bill has to run before maturity;
(*b*) The additional stamp duty on a long bill;
(*c*) A small additional allowance of about $\frac{1}{8}$ per cent. to cover agents' collecting commission and other incidental charges.

Where a bill comes forward for discount which has a period to run before maturity different from that for which a rate is quoted, a "tel quel" rate, or rate for the bill as it is, is quoted by the dealer, who adjusts the short rate by making the necessary allowances for interest and stamp duty.

Fluctuations in the Exchanges.

Fluctuations in the exchanges are caused by variations in the demand for and the supply of the currency concerned. Changes in demand and supply over a short period are influenced mainly by the following factors, each of which enters into the question because it represents either a demand for foreign currency or a source of supply thereof :—

(*a*) Trade.—This includes international indebtedness arising not only from the export and import of goods, but also in respect of various charges, *e.g.*, freight, insurance and commission, incurred in respect of the movement of goods.

(*b*) Financial Factors.—This includes factors such as the movement of bankers' funds from one centre to another to take advantage of higher interest rates; the sale and purchase of Stock Exchange securities; international borrowing and lending; and interest payments by the nationals of one country to those of another.

(*c*) Speculation, *i.e.*, purchases or sales of foreign currencies in expectation of a rise or fall in their values.

In the long run the rates of exchange are influenced by any changes in currency and credit conditions that cause variations in the price levels of the countries concerned. Thus the inflation of an inconvertible currency tends to turn the exchanges against the inflating country until the market rate of exchange corresponds to the Purchasing Power Parity.

Visible and Invisible Items.

As the total returns of goods imported into and exported from each country are published periodically in its public statistics (in our own country in the *Board of Trade Returns*), these items are known as *visible* imports and *visible* exports. There are, however, many other items which do not appear in the published returns, but which are important sources of international indebtedness. Such items are therefore classed as "*invisible*" imports and exports.

Any transaction which, though not *directly* entailing a movement of goods, involves the payment of money from abroad may be described as an *invisible export*. Vast sums are paid to this country on account of freights on goods carried by our shipowners for other nations, commissions due to our bankers and merchants on account of services rendered to other countries, and premiums for insurances effected with British companies. Each of these factors helps to swell the foreign demand for British currency, or, what in the end comes to the same thing, to increase the offerings of foreign currency by people in this country. Many banking and stock exchange transactions also come under this heading.

On the other hand, services which are rendered by foreign countries, and which have to be paid for, are classed as *invisible imports*. In the case of this country, the amount we have to pay for such items is considerably less than the amount we receive; but such items as the sums spent by British tourists abroad, remittances made from London and other ports on account of the victualling and fuelling of ships abroad, and the drawings of captains and seamen in other countries to obtain funds, all increase the supply of our currency in foreign markets and thus exert an adverse influence on our exchanges.

Invisible Trade of the United Kingdom.

The statistics or returns of our *visible* imports and exports published in the *Board of Trade Journal,* regularly disclose that, so far as goods and bullion are concerned, our imports largely exceed our exports. We are, therefore, said to have an *Adverse Balance of Trade.* The question naturally arises How is this heavy excess of imports paid for?

The answer is that the excess imports are more than offset by the highly valued *invisible exports* of services rendered to other nations by the United Kingdom in the capacity of international banker, shipper and financier. In other words, a high proportion of our imports of goods represents the payments being made to us by other nations for our invisible exports.

Every year the experts at the Board of Trade make an exhaustive investigation with the object of estimating the *net* annual value of our invisible sources of revenue or income, which they group under the following heads:—

SHIPPING INCOME.—This item covers the *net* revenue estimated to be received by the United Kingdom in respect of the transport services of her mercantile marine and associated industries.

INCOME FROM BANKING, INSURANCE AND SIMILAR SERVICES. —Under this heading are included the estimated *net* receipts in respect of: (*a*) payments made to our bankers, brokers, merchants and accepting houses for commissions and brokerage in respect of services rendered in the financing of trade and the marketing of goods; (*b*) premiums paid to our insurance companies, brokers and underwriters in respect of the insurance of goods exported from this country, and in return for marine risks undertaken on foreign account, *i.e.*, for goods which never touch our shores; and (*c*) commissions paid to brokers and agents on the London Stock Market and the produce exchanges for business executed on foreign account.

INVESTMENT INCOME.—The Board of Trade gives under this heading its estimate of the *net* income accruing to this country from overseas investments *of a joint-stock character*, after allowing for deduction of income paid to foreigners in respect of their investments here.

MISCELLANEOUS RECEIPTS ON REVENUE ACCOUNT.—Among other receipts of less importance for which one *net* estimate is given are payments made on account of the sale by Britain of second-hand ships; sums sent home by British settlers or emigrants abroad; sums remitted on account of profits by the overseas branches and agencies of British commercial houses; amounts paid by other countries in respect of tourists' expenditure in this country; and, finally, payments made to our Government on account of war debts and reparation payments,

and contributions made by the Empire overseas for services rendered by the War Office, Admiralty and other Government Departments.

Britain's Favourable Balance of Indebtedness.

In the spring of each year the Board of Trade combines its estimates of the nation's invisible income with the figures of the recorded receipts and payments in respect of goods and bullion, and so obtains a National Balance of Payments which gives a very clear indication of the results of our international business during the preceding year.

BOARD OF TRADE ESTIMATES OF THE UNITED KINGDOM'S BALANCE OF PAYMENTS, 1929-1938.

(£ millions)

	1929	1930	1931	1932	1933	1934	1935	1938
Visible Trade Balance:								
Excess of imports of goods over exports (including gold)	366	392	408	287	263	294	261	377
Invisible Trade Balance:								
Excess of Govt. receipts from overseas	24	19	14	24†	—	7	2†	18†
Net Income for shipping services	130	105	80	70	65	70	75	100
Net Income from Overseas Investments	250	220	170	150	160	175	185	200
Net Receipts from Short Interest and Commissions	65	55	30	25	30	30	30	35
Net Receipts from other sources	15	15	10	15	10	10	10	—
Total Invisible Trade Balance	484	414	304	236	265	292	298	322
Estimated Aggregate Balance	+118	+22	−104	−51	+2	−2	+37	−55
New Overseas Issues on the London Market*	94	109	46	29	38	43	21	25

* From the Monthly Review of the Midland Bank. † Excess Payments.

Although the estimates vary considerably from one year to another, and though they are at the best only very rough calculations based on very inadequate information, yet it will be seen that, until 1931, they always showed a very considerable margin of net income or net receipts in our favour. In other words, we were said to enjoy a favourable *Balance of Indebtedness*. If we looked no further than these figures, we should expect to find (*a*) that the foreign exchanges were usually very much in our favour and practically always at the gold import points, and (*b*) that we imported considerable quantities of gold from other countries.

Actually, London rates of exchange on other centres *when we were on the gold standard* were on the whole favourable, but they were not always at the gold import points. On the contrary, they kept fairly near to the mint parities. They moved beyond

the gold specie points only in abnormal circumstances, and there was no great disparity between the total amount of gold imported and the total amount exported in any one year. Clearly, therefore, Britain's exchange position was ordinarily one of comparative equilibrium, indicating that the foreign demand for sterling kept reasonably close to the supply. How, then, can we account for this position in view of the large balance which, in normal times, accrued each year in favour of this country?

The explanation is that, in normal conditions, investors in Britain annually invest abroad at least as much as the estimated surplus of receipts over payments. As a rule, the annual excess of receipts on account of heavy invisible exports is counterbalanced by invisible imports of securities in respect of capital issues made in the City of London on foreign account, and by the invisible transfer of liquid funds between London and other centres. The estimated surplus arising from our revenue account transactions never accumulates in the sense that other countries have to send us vast amounts of gold or have otherwise to effect payment of a large outstanding balance. Almost before the income or revenue is due and received it is earmarked as a loan or capital export to some needy borrower.

Implications of the Gold Standard and of the Balance of Trade.

Similar conditions making for equilibrium between total receipts and total payments apply in all other gold standard countries; indeed, the mechanism of the foreign exchanges and of the gold standard is such that, when the gold standard is allowed to operate automatically, any balance of indebtedness is settled by the transfer of funds for investment.

Suppose that a gold standard country has, over a given period, a markedly adverse balance of indebtedness. The effect of this will be that her currency will depreciate, and, in the absence of countervailing measures, heavy quantities of gold will be withdrawn. But the loss of gold cannot continue without seriously affecting the nation's credit position, so what usually happens is that the monetary authority of the country concerned intervenes to induce an inflow of funds by raising its rate of discount. This produces temporary equilibrium. But the existence of a consistently adverse balance shows that prices in this country are too high (the currency is overvalued). To restore the equilibrium, a policy of deflation (credit restriction) must be pursued to bring down the internal price-level. Indeed, this policy is forced on the country if its gold reserves are reduced.

Similarly, a gold-standard country which has a favourable balance of total indebtedness must either increase her imports so as to make up the balance or must lend the surplus to her

debtors, or she must continue to accept gold in payment of her surplus credits. If the imports of gold are allowed to have their usual effect, credit will expand and prices will rise. The country concerned will be a good market in which to sell, but a bad market from which to buy. Her exports will fall and her imports will rise, until this movement, combined with other factors, will ultimately reduce the favourable balance and bring about a closer equilibrium between payments and receipts. The rise in prices will remove the " undervaluation " of the currency which has hitherto produced a favourable balance of indebtedness.

The foregoing brief explanation should enable the reader to form a clear idea of the implications of the gold standard and of the balance of trade. The maintenance of the gold standard in any country means that the money of that country —whether it consists of paper notes or coins—is convertible into a legally fixed weight of pure gold.

Each gold standard country keeps a reserve of gold which acts as the basis of her credit system and also as a store from which she can meet any demands for payment in gold. But though these reserves are replenished from time to time, they cannot be maintained at the level necessary for internal price stability unless the country keeps her international account " all square." A gold standard country must maintain a reasonable equilibrium between her international payments, or debits, and her international receipts, or credits. If a nation consistently pays away more than she receives, she will have to pay away all the gold she keeps in reserve. On the other hand, if that country consistently receives more than she pays away, then she will find herself flooded with more gold than she can conveniently do with.

As we have seen above, the gold standard will not work smoothly unless the gold standard countries allow gold movements to exercise their equilibrating influence on price-levels. If the gold standard country keeps its price-level *below* that ruling in other countries its currency will be undervalued and the country will achieve a more favourable balance of payments, leading probably to an inflow of gold. Conversely, if the country maintains an unduly high level of prices its balance of payments will tend to become unfavourable and gold will tend to flow out.

Britain's Adverse Balance.

It will be seen from the figures quoted on p. 643 that Britain's balance of indebtedness moved heavily against her in 1930, and by 1931 had become so *adverse* that, in September of that year, she was compelled to give up the gold standard.

The causes of this change were manifold, but, amongst others, the following may be mentioned :—

(1) Our visible exports had fallen off, partly owing to the overvaluation of the pound, *i.e.*, to the high level of prices and costs in this country, and partly owing to the growth of foreign manufacturing industries behind the shelter of high tariffs.

(2) Our visible imports had been swollen by dumping by other nations. Our market alone remained unprotected, and the comparatively high level of our prices attracted the goods of foreign manufacturers.

(3) Our invisible exports had been considerably reduced. *Shipping* had become relatively slack, and smaller freights were earned as world commerce was stifled by the growth of tariffs and the collapse of markets. Our income from *overseas investments* was reduced by the falling-off of profits and dividends and the defaults of many debtors. Finally, our income from interest and commissions suffered as a result of the smaller volume of trade and financial transactions.

The adverse balance, coupled with other factors, combined to bring about the collapse of sterling (the gold link being removed), but this in itself contained the germs of recovery, for the depreciation of sterling and the protective tariff which was instituted in this country combined to bring about a considerable improvement in the balance of indebtedness, as shown in the table on page 643. Nevertheless, the tendency towards an unfavourable balance remained, and is likely to be accentuated by war conditions, for Britain must import heavily the materials needed for her armaments, while her exports must suffer as a result of the concentration of production on the war effort and the rise in costs of production.

Short-Term Lending and the Exchanges.

Between active financial centres, such as London, Paris and New York, transfers of liquid balances in order to take advantage of profitable opportunities for investment have in recent years assumed such proportions as frequently to obscure the effects of trade influences on the exchanges. For example, a dealer in Paris who wishes to transfer funds to London may do so simply by purchasing a T.T. in sterling, and may use the funds so acquired in one of several ways which are open to him, *e.g.*, he may place them on fixed deposit with a London banker, or employ them as "call-money" on the London Money Market, or utilise them to purchase British Treasury Bills.

Very frequently a banker who transfers funds in this manner protects himself against exchange fluctuations by selling "forward exchange" (see page 649) to the extent of his purchase. If this is done, the combined purchase and sale is known as a "*swap*" or "*swap and deposit.*"

Many central banks nowadays maintain large balances in other gold standard centres, and these balances, together with balances held by other bankers, are kept in that centre where, all things considered, the best return is obtainable. With recent developments in means of communication, these funds can be transferred from one centre to another in the course of a few minutes; and the result is that there is a continual movement of those balances to centres where they can be more profitably employed. At times, especially when wide differences in interest rates arise, the effect of these transfers may be such as to outweigh all other influences.

Arbitrage Operations.

Arbitrage operations in exchange are undertaken by dealers for the purpose of realising profits from differences in exchange rates ruling in two or more markets at the same time. For example, if there is any temporary divergence between the rate quoted in London for francs and the rate quoted in Paris for sterling, it may be possible to make a profit by buying francs in London and selling them in Paris. Such an operation, where only two centres are involved, is known as "*simple arbitrage.*" Where three or more centres are involved in the operation, the term "*compound arbitrage*" is used. For example, a banker may buy marks in London; with these marks he may buy a T.T. on Amsterdam through his agent in Berlin; with the florins he may instruct his Amsterdam agent to buy a T.T. on Berne, and with the Swiss francs he may ask his agent in Switzerland to buy sterling. Where the funds are brought back to the centre from which the operation is carried out, the deal is known as "*circuitous*" arbitrage. Needless to say, these operations must be carried out almost simultaneously, otherwise a slight fluctuation might deprive the dealer of his profit.

The Silver Exchanges.

No mint par can be established between a silver standard currency and that of a gold standard country. The only basis on which it is possible to establish a basis or par of exchange between one of these countries and a gold standard country is by calculating the value, in terms of gold, of the silver contained in the standard currency unit of the silver-using country concerned, *at the current market price of silver.* This figure is known as the "*silver parity*" or "*relative par.*"

It follows that, in addition to the ordinary factors influencing the demand for and the supply of remittances, fluctuations in the silver exchanges are also dependent upon changes in the gold price of silver.

So violent have been the fluctuations in the price of silver during recent years that trade with silver countries became almost a gamble. It became obvious that the silver standard

was unsatisfactory in modern conditions, and one by one the silver countries abandoned the metallic standard. In most cases, *e.g.*, China, Hong Kong, Mexico, an inconvertible paper currency was adopted.

The Gold Exchange Standard.

In consequence of the great shortage of gold for monetary purposes in the years following the Great War, most countries which wished to restore or institute the gold standard had to be content to do so with comparatively small gold reserves. Consequently, they adopted what is known as the *gold exchange standard*, the essential of which is that the internal currency of the country concerned is either paper or silver, while the gold value of the currency unit is legally fixed at an arbitrary figure, *i.e.*, it is laid down that, for *external* exchange purposes, the currency unit shall be deemed to be equivalent to a given weight of fine gold. Arrangements are made for the central bank to purchase and sell gold bullion (or gold exchange [1]) in exchange for the paper or silver currency (or silver bullion) at the legally fixed ratio, with the result that the exchanges on gold standard centres are permitted to fluctuate only within certain narrow and definite limits which correspond to the specie points of a country having a full gold standard or a gold bullion standard.

Currency Exchange Standards.

The gold exchange standard is to be distinguished from those currency systems in which the monetary unit is linked, not to a given quantity of gold, but directly to the monetary unit of another country, in such a way that the value of the currency fluctuates with every change in the value of the monetary unit on which it is based. Eire, for instance, has a pure currency exchange standard inasmuch as the Irish legal tender notes are directly convertible into sterling deliverable in London.

Of course, if the monetary unit to which a currency exchange system is linked is itself fully convertible into gold, then there is, in practice, no difference between a gold exchange standard and a currency exchange standard. But the difference reveals itself as soon as the monetary unit is no longer convertible into gold, for then the value of the tied currency fluctuates with the value of that unit and not with the value of gold. This is precisely what has happened in the case of India. The rupee has for a long period of years been linked to sterling and has consequently fluctuated in value when sterling has been divorced from gold.

[1] *i.e.*, a bill, draft, T.T. or other form of remittance, for a specified sum in a gold standard currency.

Methods of Eliminating Exchange Risks.

It is obvious that a person who has to pay or receive at some future date a debt expressed in foreign currency may be involved in considerable loss if the rate of exchange moves against him in the meantime. There are in general three methods by which risks of loss through exchange fluctuations may be avoided, namely (*a*) the purchase or sale of *forward* exchange, (*b*) the use of *exchange clauses*, and (*c*) the opening of *foreign currency accounts.*

Forward Exchange.

The system of forward exchange is an application of the principle of "futures" to dealings in foreign exchange. A rate is fixed at once at which the foreign currency is to be sold at a future date, but no money passes until the contract matures. For example, a merchant in this country who has bought from America goods for which he will have to pay at the expiration of three months, can arrange for his banker to sell him dollars "forward." The banker will fix at once a rate for the sale of the dollars for delivery on the agreed future date. Similarly, an English exporter, who has received payment by a bill in foreign currency due in three months' time, can sell the currency "forward" to his banker at a rate fixed at once.

In order to overcome the difficulty that a trader may not know the exact date on which to expect payment in foreign currency, his banker will usually grant him a forward "option" which entitles him to make delivery any time within, say, a certain month. There is no option as to the *actual delivery*, but merely as to its date.

With most forward contracts the bank requires the customer to give some security or to pay down a small margin so as to cover the bank against any loss which it might incur should the customer fail to fulfil his side of the contract.

Forward rates are quoted at a *premium* or *discount* in relation to the *spot* rate, which is the rate for immediate delivery. If forward rates are at a *premium*, it means that forward currency is dearer than spot currency. For example, if the spot rate for dollars is \$4·50 to the pound, the forward rate might be \$4·49 (a premium of 1c.). Conversely, if forward rates are at a *discount*, it means that forward currency is cheaper than spot currency, so that with a spot rate of \$4·50 to the pound, the forward rate might be \$4·51 (a discount of 1c.).

Exchange Clauses.

An exporter who invoices his goods to the importer in his own currency avoids the risk of exchange fluctuations; but if it is agreed that he is to obtain payment by drawing a bill in his own currency it will be necessary to include in the bill a

clause indicating the rate of exchange at which it is to be paid by the drawee. The following are the principal exchange clauses used by exporters from Great Britain :—

(a) *Payable at the Collecting Bank's Selling Rate for Sight Drafts on London on Day of Payment.*—This clause requires the drawee to pay sufficient foreign currency to the collecting banker to enable the latter to issue a sight draft for the face amount of the bill.

(b) *Payable without Loss in Exchange.*—This clause has practically the same effect as (*a*), but the collecting bank is compelled to accept *any* banker's draft on London for the face amount of the bill, and may therefore lose the profit which he gains under (*a*) on the sale of his own draft.

(c) *Exchange as per Indorsement.*—This clause is used only in sterling bills drawn in this country, and can be inserted only by agreement between drawer and drawee. The banker negotiating a bill in which this clause is included converts the bill into foreign currency at a *tel quel* rate adjusted to the term of the bill, and can therefore pay over the face amount to the drawer without any deduction for discount or other charges. The *tel quel* rate is indorsed on the bill by the banker, who also alters the sterling amount of the instrument into its foreign currency equivalent at the adjusted rate, so that the foreign drawee will know what he has to pay. In effect, therefore, the drawee of such a bill has to pay interest and stamp-duty.

Foreign Currency Accounts.

Many importers and exporters open with their bankers an account in respect of each foreign currency in which they have to transact business.

To this account is placed all foreign currency due to the customer, while he can utilise it to pay amounts due by him in foreign currency. If the balance on such an account runs low it may be replenished by buying foreign currency from the banker and having it placed to the credit of the account. Similarly, if the trader accumulates a greater balance than he needs he may sell part of it to his banker.

This procedure enables a merchant to utilise amounts due to him for his exports to pay for amounts due from him for his imports, and thus only the balance due to or by him need be converted.

Under this system, therefore, the risk of exchange loss arises only when a balance is liquidated by conversion into sterling.

Exchange Equalisation Accounts.

Since the breakdown of the international gold standard in 1931, government regulation in the field of currency and exchange has increased. Various governments instituted measures for protecting their countries against the harmful effects of exchange fluctuations.

In this country, the United States and France, the main measure used was the establishment of vast *Exchange Equalisation Accounts*, or *Funds*, provided with extensive resources,

These were used to buy and sell foreign currency in order to smooth out short term, or day-to-day fluctuations that would otherwise have hampered foreign trade. The funds were not used to prevent *long-term* adjustments in the value of the currency concerned, such as would be necessary because of movements in internal price levels.

Our own Exchange Equalisation Account was set up by the Finance Act, 1932, with the object of providing the Treasury with funds to eliminate short-term fluctuations in the value of sterling. The Account was originally allocated £175 millions (£25 millions from the old Dollar Exchange Fund and power to borrow a further £150 millions), but in May 1933 the borrowing powers were increased to £350 millions. There was a further increase of £200 millions in 1937, and in 1939, as a result of the *Currency and Bank Notes Act* of that year, another £94½ millions were added to the resources of the Fund, which thus amounted to about £670 millions. These funds were used for operations in the Exchange market. If the " control " wished to prevent a rise in the value of sterling it bought foreign currencies (*e.g.*, francs and dollars) or, alternatively, it might buy gold in foreign centres. On the other hand, to prevent a fall in the value of sterling the " control " might sell some of its holdings of gold or foreign currencies.

Since the outbreak of the war in September 1939, government regulation of the exchanges has become even more important, especially for the belligerent countries. For the duration of the war, at least, exchange rates will depend on the policies of the countries concerned.

Exchange Restrictions and Control.

The devices adopted by various countries in an attempt to control their exchange rates are too varied to be described in any detail. In some cases, control has been imposed in order to prevent depreciation of a currency and to maintain the purchasing power of the currency in foreign markets ; in others, usually countries that have been forced off the gold standard, it has been designed to force down the exchange-value of the currency and to encourage export trades by bringing about the undervaluation of the currency.

Amongst the more common devices for controlling exchanges the following may be mentioned :—

1. Exchange Pegging, *i.e.*, maintaining the exchange-value of the currency at a certain level by official purchases and sales. If the currency tends to fall below this level the controlling authority enters the market and buys the currency, so forcing up its value. If the currency tends to appreciate the controlling authority sells it. The Exchange Equalisation Account is used in this way to peg sterling against temporary fluctuations.

2. EXCHANGE RESTRICTIONS.—These range from the mild form of prohibition of speculative dealings to an extreme form in which no transaction in foreign currency is allowed without an official permit. In some cases all transactions have to be passed through an official institution; in others, the controlling authority actually fixes an "official" rate at which all transactions must be made. Another system is that in which exchange banks operate under licence and are bound to pass a certain proportion of all foreign currencies they receive to the Government.

3. BLOCKED CURRENCY.—Certain countries have adopted a system whereby if a sum in the home currency is due to a foreign creditor, *e.g.*, an exporter, it is merely credited to him in a special account—a "blocked" account—which can be drawn upon by him only for certain stipulated purposes, *e.g.*, for the purchase of goods in the home country. Currency "blocked" in this way cannot be freely bought and sold on the exchange markets, and thus the offerings of the home currency on the exchange market are reduced, and its exchange-value maintained. Germany has been able in this way to maintain the exchange value of the "free" reichsmark at par, but "blocked" reichsmarks are sold at a substantial discount, representing their lower value to the purchaser, who can use them only for certain types of transaction.

4. EXCHANGE CLEARINGS.—The growth of exchange restrictions so hampered trade between some countries that they were led to enter into "Exchange Clearing" agreements to mitigate the harm done to their foreign trade.

Under such agreements all exchange dealings between the countries concerned pass through central authorities (usually the Central Bank of each country) by whom receipts are offset against payments, and exchange dealings by private traders are obviated.

The importers in each participating country make their payments for goods imported *in their own currency* direct to the central bank in their country, and, out of the funds so accumulated, the central bank pays its exporters in their own currency for goods sent abroad. Under this system, exporters do not receive payment unless the central bank receives sufficient from its importers to meet the claims of its exporters. All payments and receipts handled by each central bank are settled in its own currency; if an importer has agreed to pay, or an exporter has agreed to receive payment, in the foreign currency, the amount is converted into the home currency on the date of settlement at a rate fixed by the central bank for this purpose.

Britain instituted certain Clearing Systems so as to ensure that our exporters should obtain payment out of the funds provided by our importers. In the absence of a clearing system our exporters were being penalised in favour of exporters in

countries that had already set up clearings, for whereas the other exporters received punctual payment, our exporters had to await the fulfilment of various restrictions on the transfer of their funds.

There is no doubt that an Exchange Clearing does encourage trade between the two countries directly concerned, but, like all artificial interferences with trade, it has the effect of diverting trade out of its natural channels. For this reason it must be regarded purely as an expedient, like tariffs, adopted by this country in self-defence.

Insuring the Transfer Risk.

The possibility that an exporter may be unable to obtain payment from abroad owing to the imposition of some restriction on the transfer of the funds, *e.g.*, the " blocking " of the currency, has added to the risks of exporting. It is now possible, however, for an exporter to insure against this risk.

The Export Credits Guarantee Department is willing to insure the " transfer-risk " for any exporters who insure the whole of their credit risk under the Department's Comprehensive Guarantee. Any such exporter, by paying an additional premium (which is varied according to conditions in the importers' country) obtains a guarantee that he will receive 75 per cent. of the *sterling* value of his exports within six months of the date of his account.

There are, of course, various conditions to be complied with ; but it will be seen that, by varying its rates of premium for different countries the Department will to some extent be able to influence exporters in their decisions as to what markets shall be developed.

Treasury Control.

On the outbreak of war in September, 1939, steps were immediately taken by the British Government to control the sterling exchanges, with the object of safeguarding the financial stability of the country. During the last war our heavy imports from neutral countries and from America, coupled with the falling-off in our imports, led to a serious depreciation of sterling. This time the authorities had to prepare for even more serious economic difficulties. Everything had to be done to conserve our resources of gold, foreign securities and foreign currencies. These constitute our reserves, wherewith we can pay for essential imports. At the same time, we had to encourage exports, so as to provide a steady income to be spent abroad.

The restrictive measures imposed in the Foreign Exchange market are designed to: (*a*) encourage exports ; (*b*) control imports ; (*c*) conserve our stocks of gold and of foreign currencies and securities ; (*d*) preserve the stability of sterling.

Immediately war broke out, the greater part of the Bank of England's gold reserve was transferred to the Exchange Equalisation Account, and the Account was granted unlimited borrowing powers. Private owners of gold and of foreign exchange were required to sell their holdings to the Bank of England, whilst British owners of foreign securities had to register their holdings. Certain of these securities were subsequently commandeered by the authorities.

To control imports and exchange rates, regulations were imposed which had the effect of "rationing" supplies of foreign exchange to would-be importers. At the same time, private dealings in the chief currencies were forbidden, and the Bank of England was granted sole control of dealings in these currencies in London. All such dealings must now be passed through the banks, who act as agents of the Bank of England. Other currencies are still freely dealt in on the market, but the Treasury can exercise almost complete control through the Exchange Equalisation Account.

The control exercised in the London market does not extend, of course, to dealings in foreign centres, where sterling is still dealt in on the open market. Such dealings are, however, of comparatively small importance compared with those in London.

QUESTIONS BEARING ON CHAPTER 42

1. What are "invisible exports"? (*C.A., Inter.*)

2. Italian Government 5 per cent. Bonds are quoted at 85·85 per 100 lire, with the exchange rate at 92·38. What is the value in sterling of bonds for 5400 lire? (*C.A., Inter.* (*Irish*).)

3. What is meant by :—

   (*a*) "Mint par of Exchange";
   (*b*) "Current rate of Exchange";
   (*c*) "Gold Points"? (*S.A.A., Final.*)

4. State the chief unit of currency in the following countries, and give the approximate present rate of exchange to the £ in each case: United States of America, France, Switzerland, Germany, India, Spain, Holland, Belgium. (*S.A.A., Inter.*)

5. What is meant by gold points? In what circumstances are they ineffective? (*C.I.I. Fellowship.*)

6. Illustrate by an example how settlements between debtors and creditors in foreign countries can be effected through London. (*S.A.A., Final.*)

7. Explain the part played by bills of exchange in adjusting our foreign trade. (*London Chamber of Commerce.*)

8.

£550. LONDON, MOORGATE PLACE, E.C.2.
15th April 19....

Sixty days after date of this First of Exchange (Second and Third of the same tenor and date unpaid), pay to our order the sum of Five Hundred and Fifty Pounds value received. Exchange as per indorsement.

R. COURTENAY & Co.

To Messrs. MORALES Y CIA,
S. Salvador.

State what indorsements you would expect to find upon the above document, and describe the advantages Messrs. Courtenay & Co. derive from the form it takes. (*C.A., Inter.*)

9. (*a*) Point out the fallacy of and explain what is intended by the statement that "in New York the pound is worth nineteen shillings and sixpence."

(*b*) What term is applied to, and what is the effect on the exchange of the respective countries of the following transactions?—

(i) A British ship was chartered by American shippers for the conveyance of goods from New York to Yokohama, payment for freight being made in London.

(ii) A Cantonese tea planter sold tea to a merchant in Naples for delivery against a Bill of Exchange accepted by London merchants, who were paid a commission for the service by the Naples merchant. (*S.A.A., Inter.*)

10. The Board of Trade returns invariably show that the imports into Great Britain and Northern Ireland largely exceed in value the exports therefrom. Explain how this excess is paid for. (*C.A., Inter.*)

11. Name the "Monetary Units," and their equivalents in coinage of smaller value used by France, Germany, Italy, Spain and Portugal. (*C.A., Inter.*)

12. The majority of daily papers publish a list headed "Foreign Exchanges." Explain the nature and value of the information this list contains. Submit three imaginary extracts from such a list, and explain their meaning. (*C.A., Inter.*)

13. On 1st August a New York banker buys for \$96,040 a bill on London with 60 days to run after acceptance of face value of £20,000. He sends it to London, where it arrives, and is accepted on 10th August. It is immediately discounted at $4\frac{1}{4}$ per cent. per annum, and the proceeds (less £12 10*s.* for tax and commission) are expended exactly in meeting sight sterling drafts sold by the banker in New York on 1st August at the rate of \$4·86 to £1. Calculate the profit (in dollars) made by the American banker on this transaction. (*R.S.A., Stage II.*)

14. What do you understand by arbitrage transactions in foreign exchange? What is their special significance in the market for bills? Give an example, with reasonable figures of your own selection, of arbitrage operations involving London, Paris and New York as money centres. (*R.S.A., Stage III.*)

15. What do you understand by "invisible Exports"? How do they affect the balance of our total import and export trade? (*London Chamber of Commerce.*)

CHAPTER 43

THE LONDON MONEY MARKET

THE London "Money Market" comprises the numerous bankers, brokers, discount houses and financiers in the City of London, who trade in the commodity, money, and its representative, credit. The Money Market is really a market within a market, for it is a part of the English Capital Market which includes the whole of the specialised and centralised machinery for facilitating the transfer of capital from those who wish to invest to those who wish to borrow.

Members of the Money Market.

THE BANK OF ENGLAND is the pivot of the Money Market, and its position as the holder of the nation's ultimate cash reserve enables it to exert a great influence on the monetary conditions ruling on the market and in the country generally. It is always ready to lend to the market at a price, and is thus a stand-by in case of emergency.

THE PRINCIPAL LENDERS are the bankers, including the Bank of England. Their disposable funds are derived from the floating balance of their deposits which remains after sufficient has been reserved to meet current demands, and what is considered to be a safe proportion has been sunk in loans, investments and other ways. These surplus funds are lent for short periods, frequently overnight, at low rates of interest.

THE PRINCIPAL BORROWERS consist of bill brokers and discount houses, who utilise the funds by discounting bills, and Stock Exchange brokers and operators, who employ the funds for facilitating dealings in securities.

In addition to the above, the British, Foreign and Colonial Governments, and foreign and colonial banks with London agencies, lend and borrow considerable sums on the market.

Market Rates of Discount or Interest.

Since the London Market consists of a number of distinct markets, each with its own dealers and prices for the commodity dealt in, several rates of interest and discount are quoted :—

BANK RATE is the official advertised minimum rate of discount at which the Bank of England will discount approved bills of exchange for other than its own trading customers. For its own customers (other than Money Market dealers) the bank will discount ordinary trade bills at current market rates.

The Bank rate, which is fixed every Thursday by the Court of Directors, ultimately regulates all other rates in the Money Market.

MARKET RATE is the rate of discount charged by members of the Money Market, other than the Bank, for discounting bills. Market rates vary: they depend chiefly on the period for which the loan is made or for which the bill has to run before maturity; the shorter the period the lower (usually) is the discount. The rate quoted also varies according to the standing of the parties to the bill, different rates being quoted for *bank* and *trade* paper. Market rate is nearly always lower than Bank rate.

BANKERS' DEPOSIT RATE is that paid by the bankers on deposits left with them. The rate for deposits repayable at seven days' notice is usually fixed at 2 per cent. below Bank rate, while the rate for deposits at call is ½ per cent. lower than that for seven-day deposits.

Although deposit rate is usually fixed at 2 per cent. below Bank rate, the banks appear to regard ½ per cent. as a minimum rate. Thus, with Bank rate at 2 per cent., the joint-stock banks have paid ½ per cent. on deposits.

BROKERS' DEPOSIT RATE is the rate paid by City brokers and discount houses on money deposited with them at call or short notice, and is usually ¼ per cent. higher than the bankers' rate for deposits on the same terms.

BANKERS' CALL RATE and SEVEN-DAY RATE are the rates charged by bankers for loans to members of the Market at call and at seven days' notice respectively.

DAY-TO-DAY RATE is the rate charged by banks for lending money "Overnight," *i.e.*, repayable the next day.

TREASURY BILL RATE is the rate of discount at which Treasury Bills are purchasable on the Market. The rate for "*hot*" Treasuries is a special rate quoted during each week for Treasury Bills issued on the previous Friday.

The issue of Treasury Bills is carried out by the Bank of England on behalf of the Treasury, and provides the Government with a very useful method of borrowing for short periods. Each Friday the Bank offers for tender (in the *London Gazette*) a specified amount of Treasury Bills. The bills are invariably payable in three months. Tenders must be made before 1 p.m. on Friday, and those quoting the lowest rate of discount naturally receive preferential treatment; moreover, the Bank need not issue the whole amount offered. The buyer is allowed to stipulate the date of issue (which must be within seven days), when he will pay for and receive the bills.

The Position of the Bank of England.

By far the most important member of the London Money Market is the Bank of England, which acts as the central bank

for the whole system, exerting a strong influence on rates ruling in the Market and so having a marked effect on the supply of money and credit.

The Bank of England, in addition to being the banker to the State, is also the custodian of the bulk of the cash reserves of all the other banks in the country. Therefore its reserve of legal tender is the ultimate cash reserve of the nation.

When we are on the gold standard, the Bank of England is legally bound to meet its liabilities in gold on demand, and as London is the greatest free market for gold in the world, the Bank's gold reserve is liable at times to be depleted by withdrawals of gold for export, as well as by withdrawals of notes for internal purposes; the latter may result, for instance, from a heavy demand for money made by the customers of one of the large banks, compelling it to draw on its reserve at the Bank of England. Since the suspension of the gold standard in September 1931, the reserve is protected, because the Bank is relieved of its obligation to pay out gold in exchange for its notes. As we have observed, the Bank of England is now, by virtue of the *Currency and Bank Notes Act*, 1928, the sole note-issuing authority in England and Wales.

The Bank Return.

Under the provisions of the Bank Charter Act, 1844 (see page 569), the Bank of England is required to issue a weekly return of its assets and liabilities, showing separately the position of its two departments, known respectively as the *Banking Department* and the *Issue Department.* The Return is issued after the Bank Court has been held each Thursday, and appears in Friday's papers. It gives such clear indications of the financial and monetary conditions in the Money Market as to warrant its being termed the "barometer of the Money Market." The following is a specimen of the Bank Return, with an explanation of its various items :—

BANK OF ENGLAND.

Return for Week ended Wednesday, 7th February 1940.

Issue Department.

	£		£
Notes Issued—		**Government Debt** .	**11,015,100**
In Circulation . .	531,105,377	**Other Government Securities** . .	**564,003,978**
In Banking Department . .	**49,131,045**	**Other Securities** . .	**4,470,508**
		Silver Coin . .	**510,414**
		Amount of Fiduciary Issue . . .	**580,000,000**
		Gold Coin and Bullion . (at 168s. per oz. fine.)	**236,422**
	£580,236,422		**£580,236,422**

Banking Department.

		£			£
Proprietors' Capital .		14,558,000	Government Securities.		121,841,164
Rest		3,513,744	Oth r Securities—		
Public Deposits* . .		28,625,624	Discounts and Advances	£2,492,016	
Other Deposits—			Securities	24,802,549	
Bankers	£108,650,434				
Other A/cs	43,750,926				
		152,401,360			27,354,565
			Notes. . . .		49,131 045
			Gold and Silver Coin .		760,954
		£199,098,728			£199,098,728

* Including Exchequer, Savings Banks, Commissioners of National Debt and Dividend Accounts.

Issue Department

Notes Issued represent the liability of the Bank in respect of the note issue. The portion of the notes in circulation is known as the "*Active Circulation*"; but this figure does not represent the actual value of bank notes in the hands of the public. A considerable portion of the Bank's so-called "active circulation" is held by the other banks in their safes and tills at their head offices and branches, and in every case there is a certain minimum below which the cash holdings are never allowed to fall. In other words, every branch or head office has its own reserve of cash, and this is kept mostly in the form of Bank notes, which consequently do not actively circulate.

Government Debt is the old debt of the Government to the Bank, and has remained unchanged for many years.

Other Government Securities consist of Government Stocks and Treasury Bills. Other Securities are probably first-class bank and commercial bills, though there is no restriction as to their form.

Silver Coin, the total of which must not exceed £5,500,000, is included in the fiduciary issue and is not part of the metallic backing of the note issue.

The last four items make up the *Fiduciary Issue*, which is the amount of notes the Bank is legally empowered to issue without a gold backing.

The maximum legal fiduciary issue was fixed by the *Currency and Bank Notes Act*, 1939, at £300,000,000. At the outbreak of war in September 1939, the bulk of the gold in the Issue Department was transferred to the Exchange Equalisation Account, and the fiduciary issue was increased to £580 millions to offset this transfer, so that the note issue was unaffected. The increase in the fiduciary issue was sanctioned by the Treasury and, therefore, took place according to the elasticity provisions of the *Currency and Bank Notes Act*, 1928.

Gold Coin and Bullion represents virtually the whole

gold reserve of the nation. This amount is now very small, owing to the transfer to the Exchange Equalisation Account. The Return shows the current price at which the gold was valued.

Banking Department: Liabilities

The Proprietors' Capital has been unchanged since 1833, and, although it is of very large amount compared with the paid-up capital of the joint-stock banks, it was suggested by the Macmillan Committee (1931) that, in view of the increased responsibilities of the Bank, an appreciable increase is desirable. The capital consists of fully paid stock, earning usually 12 per cent. on the nominal amount, and the liability of the holders is limited to the amount paid up in respect of their holdings.

The Rest is a reserve of the Bank, representing the accumulation of undivided profits together with the balance of the Bank's Profit and Loss Account. It is never allowed to fall below £3,000,000. The Bank has also very large hidden reserves.

Public Deposits represent the sums standing to the credit of the Government Departments, and vary with the collection of income tax, the payment of dividends and interest on the various forms of Government stock, and with other circumstances. When taxes are collected the item shows a great increase; but when interest on Government stock is paid, or a Government issue is redeemed, the item reflects the reduction in the total amount standing to the Government's credit.

Other Deposits, separated into "Bankers'" and "Other Accounts," are the deposits of other banks and of the Bank's other customers. The former refers to the accounts of the domestic banks (chiefly the Big Five), whilst the latter refers to deposits of foreign banks and other customers. The balances to the credit of sundry customers are fairly stable, but the balances of the bankers vary very considerably, and it is possible to judge, by the fluctuations in their amount, the extent of the disposable funds of the Money Market and the trend of financial affairs.

Normally, Public Deposits and Bankers' Accounts vary inversely. Dividend payments by the Government increase Bankers' Accounts at the expense of Public Deposits, while the payment of Income Tax has the reverse effect. The relation was, for instance, very marked on the issue of War Loans, which added enormous amounts to the Public Deposits at the expense of the balances of the other banks.

In general, a high level of Bankers' Accounts indicates a large surplus of unemployed funds in the hands of the banks, and coincides with low interest rates, *i.e.*, cheap money. Bankers' Accounts rise suddenly with the Bank rate if a monetary crisis or a disturbance of credit is impending. The rise

in the bank balances indicates that the bankers are strengthening their positions, whilst the rise in the Bank rate shows that the Bank finds it necessary to strengthen its Reserve.

Banking Department: Assets

Government Securities comprise the total of the Bank's investments in British Government stocks and Exchequer and Treasury Bills, and its loans to the Government in the form of Ways and Means Advances and Deficiency Bills. Normally, these loans are used to finance Government expenditure and they form part of the elaborate machinery whereby the Bank controls credit conditions.

Other Securities are the investments of the Bank in securities other than those under the first heading, and include also advances to bill brokers and the Bank's customers other than the Government.

When the Bank takes the initiative in buying bills the effect is to increase "Government Securities" if the bills are Treasury Bills, and "Other Securities" if they are commercial bills; whilst if the bills are sold to the Bank on the initiative of the market, they appear as "Discounts and Advances." A rise in the total of Discounts and Advances coincident with a rise in "Other Deposits" is, therefore, usually evidence that bankers are strengthening their position, and that borrowers are being driven to the Bank.

Notes, Gold and Silver Coin (The Bank Reserve).—These items are probably the most important of all, since they represent the actual reserve of the Bank and also the final gold reserve of the nation. This reserve must not be confused with the reserve of gold held by the Issue Department against notes. Gold is withdrawn from the Bank for export and other purposes by withdrawing from deposits or raising funds by discounting bills and taking the money in the form of notes from the Banking Department, thereafter presenting these notes to the Issue Department in exchange for the gold. Ordinarily, of course, fresh notes can only be issued if the Bank obtains fresh supplies of gold, but should the Reserve become seriously depleted by withdrawals, the Bank can obtain power to increase its fiduciary issue in order to issue notes to the Banking Department to restore the reserve ratio, as was done, for example, during August 1931, when, to counteract the effect of heavy gold withdrawals to the Continent following the German crisis of July, the Bank obtained permission to increase the fiduciary issue by £15,000,000. On 31st March 1933, the fiduciary issue reverted to its original amount. In December 1936, the Bank, to avoid a sharp expansion of credit following its large gold acquisitions, obtained permission to reduce the fiduciary issue by £60,000,000.

Ratio of Reserve to Liabilities.

The item Bankers' Accounts included in Other Deposits on the Liabilities side represents the aggregate of those items which are described in the balance sheets of the banks as "Cash at the Bank of England." In calculating the ratio of their cash on hand to their liabilities the bankers treat their funds on current account at the Bank as cash, but such accounts are treated by the Bank as an ordinary liability, no provision being made to set aside a special cash reserve with which to repay the banks when they demand the money. As the ratio of the Bank's Reserve (see above) to its outside liabilities is about 25 per cent., only about one quarter of the bankers' "Cash at the Bank of England" is represented by bank-notes or coin, and of this almost the whole is to-day backed, not by gold, but by securities in the Issue Department.

These points are of great importance in the study of banking, and demonstrate that the stability of our banking system depends on confidence in the Government's monetary policy, rather than on the size of our gold reserves.

Protection of the Reserve.

We have seen above that the reserve of the Bank of England is liable to be depleted either by demands for cash for internal use or by demands for gold for export purposes.

Internal demands can be easily forecast since they are fairly regular, with the result that the Bank is able to take steps to meet these periodic demands and to maintain the customary proportion of reserve to liabilities. Demands from foreign sources, however, are not easily foreseen owing to their spasmodic nature. Moreover, their effect on the reserve is more serious than that of domestic demands for extra cash.

When we are on the gold standard, there are four possible events which may result in a serious depletion of the reserve. First, a monetary crisis abroad may cause a world-wide demand for gold, and this would centre chiefly on London as being a free gold market; secondly, the outbreak of war or foreign distrust in our credit may cause the reserve again to be threatened by a foreign demand for gold arising from pressure to liquidate the claims on London which exist abroad; thirdly, any factor that causes the exchange-value of sterling to fall below export specie-point will result in an outflow of gold; and finally, a heavy drain for internal purposes may coincide with a demand from abroad.

Apart from exceptional demands for gold arising in such abnormal conditions as the outbreak of war or the occurrence of a monetary crisis abroad, spasmodic and heavy withdrawals of gold became quite a normal feature of our monetary history after our return to the gold standard in 1925. In consequence

of instability in other countries of the world, there was a vast increase in the total of liquid balances held in London on foreign account; and these funds were liable to be withdrawn at any moment, thus depressing our exchanges below export specie point, and so causing shipments of considerable quantities of gold.

Unless it is temporarily relieved of its obligation to pay its notes in gold (as is the case at the time of writing), the Bank must take measures to protect its reserves against heavy withdrawals, otherwise its financial stability and that of the country as a whole may be endangered. It usually adopts the method of raising its rate of discount, which tends to force up all other rates of interest in the Money Market. Foreign balances for investment in this country are thus attracted, and a demand for sterling, which should bring our exchange above export specie point, is induced.

The Bank is able to exert this influence on market rates because the Bankers' Deposit Rate is maintained by custom at a fixed percentage—formerly 2 per cent., but now 1½ per cent.—below Bank rate. Hence, if Bank rate rises, the banks have to pay more to their customers, and are forced to recoup themselves by raising the rates for their loans of surplus funds to the brokers and discount houses, who in turn increase their rate of discount for bills on the Market. Therefore, by the simple expedient of raising its discount rate, the Bank is able, normally, to force a rise in all the other rates in the Market. But market rate is not always *determined* by the Bank rate, for the monetary situation varies from week to week, and influences are daily at work which react on the market rate, causing it to fluctuate to some extent independently of changes in the Bank rate.

The Bank rate is effective in protecting the Reserve only if market rates follow it. Sometimes supplies of money on the Market are so plentiful that, despite a rise in Bank rate, lenders of funds continue to lend call money at low rates. Thus the market rate of discount does not follow the Bank rate, and the Bank fails to achieve its purpose; in such a case market rate is said to be "out of touch" with Bank rate, or the Bank's rate is said to be "ineffective."

Open Market Operations.

In these circumstances other measures must be adopted in order to influence market rates. Before 1914 the usual method adopted by the Bank was to reduce the available supplies of loanable money on the Market by borrowing the surplus against the security of Consols or other Stock. This generally had the effect of so reducing the supplies of funds as to force the bill brokers to go to the Bank for loans, which are granted at a minimum rate of ½ per cent. above Bank rate. In carrying out such operations the Bank is said to adopt an *Open Market*

Policy, and when borrowers have to go to the Bank for funds they are said to be "*in the Bank.*"

During recent years operations in the open market have been so developed as to form a definite line of policy. But, nowadays, the Bank is concerned more with the general level of prices than with the state of its reserve (provided this is within reasonable limits), and it operates chiefly in the interests of price stability. By buying and selling bills or securities in the open market, the Bank is able to increase or deplete market funds at its will, and so to control credit more finely by narrowing or widening the margin between Bank rate and market rates than by arbitrarily raising or lowering its own discount rate. Moreover, the Bank's influence is so great that, frequently, it is able to change monetary conditions merely by its personal influence with, or advice to, prominent members of the Money Market, so that, while the Bank rate still remains the basis of the other rates on the Market, its movements are far less frequent and violent than they used to be.

It may not be clear how the Bank, by exercising its Open Market Policy, can control credit effectively. The solution to the problem lies in the fact that, as explained on page 581, the banks in this country have a more or less fixed policy in regard to their cash ratio. They know that only a small proportion of their deposits is likely to be called for at any moment; consequently they are able to re-lend a large part of the funds deposited with them. The amounts so lent come back to them (or to other banks) as further deposits; and part of these in turn can be re-lent (or re-invested in bills or securities), and so the process known as the "Creation of Bank Credit" goes on.

But there is a limit to this process, fixed by the amount of "*Cash*" which is available in the hands of the banks—and Cash includes funds at the Bank of England, detailed in the Bank Return as "Bankers' Accounts." The banks reckon to keep a cash ratio of 10 per cent., so that their power to create credit depends on the volume of funds (cash) available for bank reserves as a whole. This is controlled by the Bank of England, which, by buying securities, increases the volume of "Bankers' Accounts," *i.e.*, the volume of bank cash, and so permits of an expansion of bank credit. Conversely, if the Bank *sells* securities, it takes funds off the Market; bank cash is reduced and the volume of bank credit restricted. It is through its control of market funds, and hence of bank cash, that the Bank of England can control the volume of credit.

The Effects of Changes in Discount Rates.

Inasmuch as they considerably affect the amounts of credit instruments of exchange which are issued and brought forward for discount, and because they influence the demand for and

the supply of loanable capital, changes in discount rates are of extreme importance.

If rates rise, fresh borrowing of all kinds is discouraged, and those who have already borrowed endeavour to reduce their liabilities. Speculation is discouraged, for, as it is conducted mainly by means of borrowed money, higher rates of interest reduce the possible margin of profit, and make speculative enterprises less attractive. As a result, the prices of securities tend to fall as those who conduct operations on the stock markets with borrowed capital realise their holdings.

Counterbalancing this, fresh lending is encouraged because bankers and capitalists can obtain a higher return, and therefore endeavour to arrange to maintain or increase their advances. Merchants and bankers in other countries are encouraged by the higher rates of interest to leave any balances they may have in this country, and are also usually willing to extend any credits they may have granted; they may even send funds here for investment. The raising of the rate of discount makes commercial bills cheaper, and consequently investment therein is encouraged, particularly by foreigners. The rise in the bankers' deposit rates attracts deposits, and people are induced to leave their capital in the banks rather than withdraw it for other purposes. The result of this eagerness to lend money results in a reduction in the amount spent on commodities, and prices tend to fall, the fall being accentuated because producers who depend on borrowed funds endeavour to realise their stocks even at lower prices. Furthermore, the general fall in the prices of goods discourages imports but encourages exports, because the country becomes a good market in which to buy but a bad market in which to sell. The attraction of funds and the tendency for exports to exceed imports tend to move the foreign exchanges in favour of this country and to attract imports of gold. In this way the Bank Reserve is increased and the position of the Bank of England is safeguarded.

Now that Britain is off the gold standard the Bank is less concerned with movements of gold, and its efforts are mainly directed towards the maintenance of stable credit conditions, the exchanges being cared for through the operations of the Exchange Equalisation Account.

Bank Rate Changes and Security Prices.

The effects of Bank rate changes upon the prices of Stock Exchange securities may be considered under two heads: (*a*) the effect on gilt-edged and other fixed-interest stocks: (*b*) the effect on industrial securities.

Fixed-Interest Stocks.—If the Bank rate is raised, the general level of interest rates tends to rise, and the yield on fixed-interest-bearing stock tends to be adjusted to this higher level through a fall in the capital value of the stocks; though

the curtailment of speculation may lead to a number of exchanges from industrial to gilt-edged securities, which will tend to prevent the fall in the value of the latter from representing the full measure of the change in the short-term rate of interest. Conversely, when the level of interest rates is lowered through a fall in Bank rate, adjustment is effected by a rise in the capital value of fixed-interest-bearing stocks.

INDUSTRIAL SECURITIES.—The values of industrial securities also tend to be adjusted to any rise in the short-term rate of interest, and this fall may be accentuated by the curtailment of speculation. A fall in Bank rate, on the other hand, tends to raise the value of industrials to a greater extent than the normal yield adjustment.

In this connection it is necessary also to consider the fact that the profits of an industrial concern depend to a certain extent on Bank rate movements. A rise in Bank rate to abnormally high levels will tend to curtail enterprise and damp down industrial activity. Really cheap money, on the other hand, is a spur to business organisers. A low rate causing a rise in prices brings higher profits, and a high rate tends to reduce them. Consequently the promise of higher profits from a low Bank rate will tend to raise the value of industrial shares, whilst a high rate—presaging smaller profits—will bring about a fall in values.

Bank Rate Changes and Trade.

Varying opinions are held regarding the effects of Bank rate changes upon trade. While there is little doubt that in some quarters the evils of a high Bank rate are greatly exaggerated, it is equally certain that in other quarters they are much underestimated. These different opinions are largely due to the fact that attention has been concentrated on totally different sets of factors, but the following important consequences of a high Bank rate may be noticed :—

(*a*) BANK CREDIT BECOMES DEARER.—Bank charges for overdrafts are usually fixed at ½ per cent. above Bank rate, and an increase in Bank rate may mean that producers working on capital borrowed from the banks have to pay more for their accommodation. This factor is not, however, so important as is often assumed; for most banks charge a minimum of 5 per cent. per annum on loans and overdrafts, and it is only when Bank rate rises above 4 per cent. that any increase is made. In any event, a producer must have a large overdraft for an extra charge of ½ per cent. or 1 per cent. to have any great effect on his costs. Possibly an even more important influence is the fact that the rise in market rates generally makes the discounting of bills a more expensive procedure. So far as these factors *do* increase producers' costs, there will be a tendency for a rise in Bank rate to induce a rise in the general level of

prices throughout the country. This tendency is, however, counteracted to a large degree by—

(*b*) THE REDUCED VOLUME OF CREDIT as a result of the increase in its cost. This, however, is a long-period tendency, and is traceable only by a comparison of the effect of high and low interest rates over relatively long periods.

(*c*) THE HIGHER COST OF GOVERNMENT BORROWINGS.—When Bank rate is high, the Government has to pay a higher rate of interest on its temporary borrowings in the form of Treasury Bills and Ways and Means Advances. To this extent, a high Bank rate leads to an increase in State expenditure.

(*d*) PSYCHOLOGICAL INFLUENCES are possibly the most important of all. The general view of the business world that a high Bank rate is bad for trade is, apart from more tangible factors, a very real influence in inducing or emphasising depressed conditions of industry. Without doubt, purchases of goods *are* curtailed when high interest rates prevail, while producers generally tend to unload their stocks at reduced prices.

The International Money Market.

Hitherto we have dealt with the London Money Market from a domestic point of view. Since for generations past London has been the leading monetary centre of the world, there are many branches in the money market which have ramifications in all parts of the world.

ACCEPTING HOUSES.—The function of these is to guarantee the due payment of debts, in return for a small commission, by accepting bills which are drawn upon them by the sellers of goods, instead of the sellers' drawing direct upon the buyers. If a merchant, Fang Fu, in China wishes to sell goods to Brown in this country, but knows little of Brown's financial position, Fang Fu may request Brown to open a credit (see page 714) with a bank or accepting house in London. If this is done, Fang Fu, instead of drawing his bill on Brown, will draw it on the bank or accepting house, by whom the bill is accepted on the strength of Brown's promise to provide the necessary funds before the bill matures. The advantages reaped by Fang Fu are that he is practically relieved of all anxiety as to the due payment for the goods he has sold, and that he has no difficulty in selling his bill, even before it is accepted, because the accepting houses have such a reputation for soundness and stability that bills drawn under credits opened by them can be negotiated without difficulty almost anywhere in the world.

The same principle holds good in the case of exports from this country. An English exporter, Smith, may know little of the standing of a foreign purchaser, but if a bank or accepting house will open a credit in his favour at the request of the foreign importer, Smith can proceed in safety with the manufacture and shipment of the goods.

There has been an ever-growing tendency during recent years on the part of, first, the foreign and colonial banks, and then the English joint-stock banks, to enter into the acceptance business. This movement has been accelerated by the opening by the joint-stock banks of branches on the Continent and by the establishment of connections with foreign banks. Although the joint-stock banks have now captured the greater part of the acceptance business on behalf of British firms, and have also acquired a large share of the business with certain leading financial centres such as New York, Paris and Zurich, they prefer to leave the Eastern and Colonial business, as well as that with less important foreign countries, either to the foreign and colonial banks or to accepting houses which have special connections with the countries concerned.

The accepting houses (or merchant bankers, as they are now usually called), having thus lost a considerable portion of their business, have been compelled, in consequence, to turn their attention to other matters. Many of them now act as agents for foreign governments, in which capacity they sponsor the issue of loans on the London Market and attend subsequently to the service of those loans

The Discount Market.

This is a necessary corollary to the accepting houses, and its business consists mainly in the buying and selling of bills of exchange. A free market for good bills is thus provided, and the fact that sterling bills can always be converted into gold in London in normal times is an important factor in their international negotiability. Further, the rates charged for discounting the acceptances of leading English financial houses are lower than would be charged on the acceptances of ordinary commercial houses, the difference in the rates usually being sufficient to offset the cost of arranging acceptance facilities.

The highly specialised services of the Acceptance and Discount Markets are a leading feature of London's financial organisation, and are used not only in import and export trade with this country, but also for direct trade between foreign countries themselves.

The term "Discount Market" is really a general one embracing all those whose chief business consists in dealing in sterling bills. The chief of these is the *bill-broker*. Originally, the function of the broker was to act as a "go-between," but nowadays the bill-broker, pure and simple, is almost defunct. There are still, however, a few such brokers, known as "running brokers," who keep in touch with those having bills to sell (*i.e.*, merchants, accepting houses and foreign banks) and those who want to buy (*i.e.*, principally banks and discount houses). They arrange the sale of bills between the two parties and receive a brokerage for their trouble.

The more common type of bill-broker is the retail dealer in bills, who buys bills outright but seldom holds them until they mature, selling them whenever he can make a profit through a change in discount rates. His specialised knowledge of bills enables him to differentiate very finely between the standing of the parties and also between bills maturing at various dates: he pays less for bills maturing at unfavourable times and more for those falling due at periods when monetary stringency is expected. This type of broker finances himself to some extent with his own funds, but principally with funds borrowed from the banks, who lend him money "at call" or "at short notice" against the security of parcels of first-class bills or gilt-edged securities, known as "floaters."

One of the services performed by brokers is that of sorting and "grading" bills. They buy miscellaneous bills and sort them into bundles containing bills of *similar* maturities (*i.e.*, due dates) but of *mixed* names (so that there is not a preponderance of bills accepted or indorsed by any single party). Bundles thus made up are readily saleable to the banks and other market dealers. Though the banks always satisfy themselves respecting the standing of the parties, the indorsement of the broker adds security to the bills he sells, while his experience is a guarantee to the banker that the bills are those of reliable parties.

It is from the class of bill brokers that the Discount House has evolved. This is usually a joint-stock company, performing work similar to that of the retail broker just described, but on a larger scale. These houses work partly with their own capital (which is considerably larger than that of a bill-broker) but chiefly on the strength of funds deposited with them by the public or borrowed from the banks.

Other Components of the Market.

The Foreign Exchange Market.—By means of this organisation it is possible to effect a huge volume of transactions arising out of trade between this country and others with a minimum of trouble and loss of time.

The Bullion Market played an important part in international finance until the outbreak of war. A certain amount of gold was dealt in for industrial purposes, but most of the gold disposed of in London was dealt in by bullion dealers (as an arbitrage transaction) or bought by central banks for their reserves. As the London gold market was quite free from restrictions, most of the South African output was marketed in London. Since war broke out, of course, the market has collapsed.

The Banks function to some extent in most of the operations described above. They accept bills, make advances against bills and goods, conduct a large foreign exchange business, and undertake financial operations of practically every kind.

The Supremacy of the London Money Market.

In spite of the rise of other important monetary centres in recent years, London retained until the outbreak of war that position as the most important financial centre of the world, which a variety of causes had in pre-1914 days made unhesitatingly hers. Foremost among those causes are the facts that, partly as a result of our geographical position as the outpost of the Old World towards the New, and partly because of our natural aptitude for business, English merchants have for centuries been leaders in foreign trade and have carried our trade to all corners of the world.

Then the early adoption of a gold standard gave our monetary unit a stable exchange value, so that the pound sterling was known always to represent so much gold payable in this country, and its value was therefore always certain. Moreover, for many years prior to the Great War, London was the only free market for gold in the world. Restrictions were placed in other countries upon the export of gold, but a foreigner having money to receive from a British merchant was always entitled, if he so wished, to demand gold and withdraw it from this country.

Still more important is the fact that British firms, accepting houses and banks attained a world-wide reputation for integrity, solvency and sound financial ability, their signatures on bills of exchange being accepted in other countries without any hesitation. This is to some extent the result of our comparative freedom from revolution and internal strife, as well as to the facts that our insular position has secured us from invasion; that our Government has long been noted for its stability; and that our banking system has long been recognised as the best in the world.

For many years Britain was the wealthiest country in the world, and her people were able to invest capital in the development of all the younger nations. British capital found its way to Canada for building railways, to India for making canals, and to Australia and the Argentine for developing agriculture. This made us the creditors of many nations, and necessitated the continual flow of money to this country for payment of interest and capital on account of the loans.

Finally, the organisation of the London Money and Foreign Exchange Markets is so highly developed that it may safely be said that in none of the other great financial centres can money or exchange operations be carried through so economically, efficiently and rapidly as in London.

London's Supremacy Threatened.

London's supremacy as an international money market had at various times been challenged, but with little success.

In particular, Paris, Amsterdam and New York made determined efforts to capture the bulk of London's financial business. Owing mainly to the fact that London alone of all the financial centres has a sufficiently well-established and fluid discount market to act as the basis for her vast international acceptance business, the efforts of these centres did not achieve any marked success.

New York has certainly made great progress in recent years. The position of the United States as the chief creditor nation of the world quickly enabled her to outstrip London as a long-term lender; and for a time that centre conducted a larger business than London in acceptances on foreign account. The abandonment of the gold standard by the United States in 1933 was a severe set-back to that country.

Central Banking.

The functions performed in this country by the Bank of England are those of a Central Bank. Before 1914, the principle that the control of credit should be centralised in the hands of a single institution which should become the focus of the money market was well established in England and in several continental countries. More recently, owing to the urgent necessity for a strong guiding hand in monetary matters, the principle has been greatly extended, and is now adopted in all important commercial countries. Thus, in England we have the Bank of England, in the United States the twelve Federal Reserve Banks, in Germany the Reichsbank, and in France the Bank of France.

A Central Bank usually performs the following functions :—

(1) Control and regulation of *the supply of currency.*

(2) Control of *the volume of credit,* which is usually governed by the willingness of the Central Bank to lend money, as indicated by the manipulation of its discount rate, reinforced by open-market operations, *i.e.*, purchases and sales of securities and bills.

(3) Control and keeping of *the gold (or other) reserve of the whole country.* This implies that the Central Bank shall be the bankers' bank, and that all movements in the gold supplies of the country shall affect its reserve. To preserve its gold reserve or prevent it from becoming too large, the bank may have to control the exchanges, and this may involve the manipulation of its discount rate.

It will be appreciated that the principal function is the regulation of credit, which demands that the bank should in itself be a reservoir of credit, willing at all times to grant accommodation at a price fixed in the interests, not merely of the bank itself, but of the nation as a whole, independently of the commercial banks. It should always be possible to obtain credit at a central bank, provided that sufficiently high charges are paid. Regulation is achieved by two methods—discount policy and open market policy; consequently the exercise of

this control is most successful where there is a highly developed discount market.

To exercise its functions effectively, the Central Bank should: (*a*) hold the country's gold reserves and the bulk of the "cash" balances of the commercial banks; (*b*) have the sole right of note issuing; (*c*) have the control of the Government balances where these are important; (*d*) avoid as far as possible competing with the ordinary banks for commercial business; (*e*) be free from political pressure.

When the gold standard is in operation, the central bank is responsible for ensuring that the standard operates without too much friction, but whatever the standard, most central banks nowadays have the additional responsibility of *directly* controlling the *exchange* position.

Central Bank Co-operation.

There has in recent years been a considerable growth of sympathy towards the idea of co-operation between central banks. In the decade after the Great War, the relative scarcity of gold, due partly to the adoption of the gold standard by countries formerly on the silver standard, necessitated economy in the use of gold, and it was obvious that this could be obtained only by co-operation between the chief monetary authorities, and, in this regard, a far more vigorous policy was rendered possible by the establishment of the Bank for International Settlements in 1929.

Bank for International Settlements.

As a part of the Young Plan, which revised the Dawes Scheme for the settlement of Reparations as from September 1929, an international bank was established at Basle to supersede the Office for Reparation Payments as the machinery for reparation transfers. The object of the Bank was to provide facilities for the international movement of funds, and to afford a ready instrument for promoting international financial co-operation.

The primary object of the Bank was the conduct of all operations in connection with reparations, but it was intended, by the powers given in its constitution, to have much wider scope. The ultimate idea is that it should develop into a central bank for central banks, provide a medium for central banking co-operation, and thus help to stabilise the international money market.

The Bank has power to assume the following functions:—

(1) The receipt of deposits from central banks for clearing and other purposes. It may pay interest on deposits not withdrawable for a month or more after their being received.
(2) The making of loans, discounts, and investments.
(3) The purchase and sale of gold, bills, securities, and other investments, and the rediscounting of bills for central banks.

Unfortunately, the Bank is, by its constitution, forbidden to operate in currencies which are not on a gold basis; moreover, membership is confined to the central banks of countries where the gold standard is in operation. It will be seen. therefore, that at the present moment the activities of the Bank are seriously curtailed, particularly as the main purpose for which it was formed has now practically ceased to exist.

QUESTIONS BEARING ON CHAPTER 43

1. What is meant by the "Bank rate"? What is its significance for the ordinary business man? (*R.S A., Stage III.*)

2. Give a brief account of the organisation of the Bank of England. How does it differ from the other banks in this country? (*R.S.A., Stage I.*)

3. Describe the services rendered by London Merchant Bankers to the British export trade. How far can the work done by this group be now also performed by the Joint-Stock Banks? (*R.S.A., Stage II.*)

4. What are the factors which make London a favourable banking centre of the world? (*C.I.I. Fellowship.*)

5. Trace the relationship between the course of Bank rate and stock exchange prices. (*C.I.I. Fellowship.*)

6. Explain the following passage taken from an article on the Money Market in a daily paper:—

> "Severe stringency was again experienced in the short loan market yesterday. Normal Wednesday balance sheet withdrawals were reported, while lenders who had called on Tuesday did not appear to have re-lent all the money they had previously called. The charge for fresh advances for the night ranged from 5¾ per cent. to 6¼ per cent., and demand was well sustained up to the close of business, the market narrowly escaping the necessity of borrowing from the Bank of England."

(*C.I.I. Fellowship.*)

7. What are Accepting Houses, and what services do they render to the mercantile community? (*London Chamber of Commerce.*)

8. How can the Bank of England make the Bank rate effective in the short-loan market? (*C.I.I. Fellowship.*)

9. What do you understand by the "Bank rate," and what relation has it to interest on moneys borrowed from, or deposited with, a bank? (*S.A.A., Inter.*)

10. How would you proceed to buy a Treasury Bill? (*C.A., Inter.*)

11. As regards the notes issued by the Bank of England:—
    (*a*) What is meant by the term "fiduciary issue"?
    (*b*) Is the amount of the "fiduciary issue" limited, and, if so, to what extent?
    (*c*) Define the term "Active Circulation" as applied to Bank of England notes. (*A.I.C.A., Inter.*)

12. Explain the nature of the special position occupied by the Bank of England, and the difference between it and the other banks in this country. (*R.S.A., Stage I, Elem.*)

13. On 1st June next, £50,000,000 will be required by the Treasury for the payment of Dividends on War Stock. Explain in detail how the money will be raised, by whom it will be paid, and what will be the effect of the distribution on the Money Market. (*S.A.A., Inter.*)

CHAPTER 44

THE CAPITAL MARKET

CAPITAL is required by a business for two purposes—to enable it to begin operations and to help it to carry on its transactions and to expand. Both these requirements are met by the Capital Market, which is differentiated from the Money Market in that the former is regarded as constituting those persons and institutions which facilitate the transfer of capital for *long periods*, whereas the second is regarded as being concerned chiefly with *short-term* loans for the finance of current projects. It is with the Capital Market in its restricted sense that we are now concerned.

The Capital Market may be considered as consisting of an inner and an outer ring. The first includes the *market for new securities*—comprising various trust and finance companies, company promoters, underwriters, brokers and issue houses, together with the *market for invested capital, i.e.*, the Stock Exchange. The second, much less centralised and organised, comprises the solicitors, provincial brokers, building societies, insurance companies, and other persons and bodies which take part in the business of long-term borrowing and lending.

The Inner Capital Market.

The function of the constituent members of this market is to facilitate the flow of capital from those who have it to those who need it. It has already been mentioned that the market may be subdivided into that for new securities and that interested in existing securities. The function of the first of these divisions is to direct the demand for new capital by expressing it in the form of securities adapted both in amount and the degree of risk to appeal to a widespread investing public. Underwriters may guarantee the subscription of the whole or part of an issue; brokers of repute lend their names to prospectuses and open up a market among their clients; bankers receive subscriptions and in return issue securities; while the well-organised machinery of the issuing houses enables them to carry out the necessary publicity work in connection with the issue.

The work of the market for issued securities—the Stock Exchange—is an important adjunct to the function of obtaining

supplies of new capital from the public. This purpose it serves by providing facilities by which securities, when purchased, may readily be exchanged among the people who hold them. The organisation of the inner capital market as a whole enables an immense aggregate of small capital holdings to be collected from a wide range of investors and placed at the disposal of states, municipalities, industrial concerns and commercial enterprises in all parts of the world.

The Outer Capital Market.

The inner capital market plays such a prominent and important part in linking up the demand for capital with its supply that the extent to which industry is financed through the less defined agencies, referred to above as constituting the outer market, is often overlooked. Loans of varying amount are made daily through solicitors to business men on little or no security other than faith in the borrower's integrity and ability; professional moneylenders advance huge amounts to all types of individuals; business men raise large sums from building societies on mortgage, while in many industries short-term capital is supplied by the system of trade credit through a variety of merchants, dealers and middlemen. Most traders employ a much larger amount of capital in their business than is represented by tangible assets, and to this extent it may be said that the average merchant is not only a buyer and seller of goods or services, but also a financier, utilising part of his capital in advancing trade credit and himself accepting similar facilities from others. In some industries, notably in the cotton industry, this aspect is of great importance, since, by reason of the intimate knowledge which they have of their customers, traders in this industry can perform services which no banker would undertake.

THE MARKET FOR NEW SECURITIES

The foremost institutions in the market for new securities are the *Issuing Houses*, whose business it is to arrange for public issues of new shares and stocks in companies, corporations and governments. The success of a public issue depends largely on the reputation of the issuing house which sponsors the issue, and sometimes such a house may itself take over the whole issue and re-sell to the public at a profit. Next come the various trust and finance companies whose main business is to invest funds over a wide range of securities, so spreading their risks; certain of these also issue new securities to the public. Finally, there are the "promoters" by whom many new joint-stock companies are brought into being and publicly floated.

The Issuing Houses.

One of the main functions of the issuing houses is to offer to the investing public loans and capital issues not only for domestic undertakings, but also to meet the requirements of foreign borrowers. The objects for which such issues are made include the financing of commercial undertakings and of public works such as the building of harbours and railways, and even the restoration of stable currency conditions by means of reconstruction loans. Issuing houses act as pipe-lines between the investing public's idle resources and industry. Their first duty is to examine the merits of the proposed issue of capital, after which they must decide whether the issue is warranted by the position of the company or government or other body wishing to raise money, whether the security given is good and whether there is a reasonable likelihood of the public getting a fair deal.

The issuing house does not actually guarantee the issue which it sponsors. In most cases, however, the chief danger against which the investor needs safeguarding is not intentional deceit, but that vague optimism which characterises so many borrowing operations. The first-class issuing house does not sponsor an issue which it considers to be of a doubtful character. In preserving its own good name it protects the public, and thereby facilitates the rapid and economic transfer of capital. In discharging these functions the issuing houses achieve greater efficiency from the fact that there is a good deal of specialisation among them as to the type of issue handled. Some concentrate on domestic issues, others on foreign ones; some devote themselves solely to high-class issues, whereas others are connected mainly with issues of the essentially speculative type. Nevertheless, this specialisation does not prevent keen competition.

Although the London Issuing Houses have established for themselves a well-earned reputation, the Macmillan Report, published in July 1931, indicated that there was room for improvement in certain directions. The Report showed that the issuing houses functioned excellently so far as the sponsoring of overseas issues on the London Market was concerned, but that they did not pay sufficient attention to the directing of British capital into domestic industrial enterprise or into British-owned concerns abroad. The Report emphasised the fact that industry was becoming increasingly internationalised, but that, whereas German and American industrial concerns obtained the strongest possible support from wealthy banking and financial groups, yet our own industrial firms were in this respect at a marked disadvantage.

Accordingly, the Committee suggested that British industry should maintain the closest possible contact with institutions connected with international finance, and that a new form of

institution should be created to provide British industrialists with capital for overseas operations (see Chapter 45).

Another point made in the Report was that investors generally in this country received little guidance as to the merits or demerits of home issues, and that they were frequently misled by the appearance on a prospectus of the name of a joint-stock bank, though that bank did not in any sense sponsor the issue in question. This practice was condemned, and it was suggested that both industry and finance would benefit if the intrinsic merit of industrial issues were vouched for by institutions of first-class strength and repute specialising in the finance of particular industries.

Investment Trusts.

The Investment Trusts are institutions whose function it is to invest funds placed in their hands by the public in such a way as to enable the ordinary investor to obtain a more certain return on his money than would be likely if he made his own selection of investments. This is done by the judicious distribution of investments, by limiting possible risks in one type of security and by a specialised study of investment. The trust's holdings of securities are continually varied according to market tendencies, the profits derived from sale and purchase are placed to reserve, and the management regard as distributable revenue only that income which the trust receives as interest and dividends on its investments.

Certain of these companies confine themselves to particular industries or countries, whilst others spread their funds over several industries and countries. If investments are restricted to one industry or country there is a tendency for the speculative element to become prominent since risks are not sufficiently spread, and, whilst large gains may be obtained, the possibility of heavy losses is equally great. Liquidity is the fundamental principle underlying a trust's investments, and this is best secured by holding a wide variety of securities.

Fixed Investment or Unit Trusts.

Even greater security is provided by the *Fixed Investment Trust*, an American development of the Investment Trust.

As distinct from the management type of investment trust, this type invests in a group of selected securities, and having once restricted its portfolio of investments, does not change it. Thus, it may select, on the basis of past records, thirty-four American common stocks, so as to obtain a complete cross-section investment in American industry. Then, to make the purchase price attractive to the small investor, it will divide a unit holding into smaller sub-units or shares, which it offers for sale to investors at prices based on the ruling quotations for the underlying securities, together with a "loading" to cover the

expenses of management and a profit for the managers of the trust.

The chief merit of the fixed trust is that it provides a safeguard against financial malpractices, and, further, that it provides the small investor with a method of securing diversification at a comparatively small price. The investor knows exactly the composition of the trust portfolio, and is not able to suffer loss through mismanagement of the trust. Moreover, the shares are safely held, usually, by one of the large banks acting as trustee.

More than that cannot be claimed. The principle of fixing the portfolio is unsound. The winds of industrial fortune are strange and fitful, and the shrewd investment manager is the one who can trim his sails accordingly, switching over now from Austrian bonds into Japanese, from bonds into ordinary shares, from Americans into British, and so on. Constant movement of this kind, when shrewdly conceived, leads on to fortune.

On the other hand, some trust managers have realised the dangers of complete fixity and have inaugurated "flexible" trusts, in which varying degrees of flexibility are obtained by giving the managers discretionary powers to eliminate certain securities from their portfolio, or to switch from one security to another. By reason of the fact that so many of these trusts are not completely fixed they are now commonly referred to as "*Unit Trusts*."

Clearly, the degree of security enjoyed by the investor in a Unit Trust depends on: (1) the original choice of securities; (2) the standing of the trustees; (3) the ability of the managers to exercise their discretion wisely; (4) the effectiveness of the control given by the Trust Deed over the activities of the managers.

The distribution of circulars is not prohibited by the *Prevention of Fraud (Investment) Act*, 1939 (see p. 687) in the case of an authorised unit trust. Such trusts will be authorised by the Board of Trade where both manager and trustee are corporations incorporated in the United Kingdom, have a place of business in Great Britain and have independent management. An authorised trustee corporation must have (1) at least £500,000 issued capital, at least £250,000 capital paid up, and its assets must be sufficient to meet its liabilities, including capital; or (2) more than four-fifths of its capital must be held by another corporation which fulfils condition (1).

The trust deed must provide *inter alia* for the approval by the trustee of advertisements or any circulars inviting the purchase of units or stating the sale price or yield of units; for a fund to defray management expenses; for the auditing and circularisation to members of accounts, including managers' accounts and remuneration; and for retirement of the manager where the trustee certifies this to be in the interests of the beneficiaries.

The Board of Trade publishes each year particulars of authorised trusts.

Holdings of sub-units are not dealt in on the Stock Exchanges, but they are freely transferable (free from stamp-duty), and a market is provided by the managers, who usually undertake to buy back the sub-units at ruling market prices.

Unit Trust Conversions.

The movement towards increasing flexibility in unit trusts has so far developed that offers have been made by some trusts to their sub-unit holders to convert the unit trust into an investment trust company (or *management company*, as it is sometimes called). In some cases, conversion has taken place. It is claimed in favour of conversion that holders secure the benefits of absolute flexibility. Although later unit trusts provided some degree of flexibility, there are usually conditions attaching to any change in investments, *e.g.*, sanction of the trustees, and difficulties might arise if that sanction was withheld. In any case it would be difficult to effect a change without some publicity, which might react adversely to the sub-unit holders. An investment trust company, on the other hand, can change its investments as often as it pleases and without publicity. It is claimed, too, that existing conditions and future outlook make flexibility particularly desirable. Further, since most unit trusts were formed at about the same time and for the same period, they will all fall due for liquidation at about the same time, with the danger of forced realisation over a comparatively narrow range of securities forcing prices down to very low levels; conversions will remove or lessen this danger.

Against conversion it is pointed out that sub-unit holders lose the safeguards provided by fixity or limitation of the portfolio, and the security provided by the trustee, and they become dependent upon the skill and honesty of the directors. A shareholder in an investment trust company, unlike a sub-unit holder, does not know of what the company's holding of shares consists. Further, sub-units are valued on the basis of market prices for the constituent securities, and the managers provide a ready market where realisation can be effected if necessary. To realise shares in an investment trust company, holders would have to sell them on the Stock Exchange, where the prices may be influenced by causes other than fluctuations in the values of the company's holdings of shares, and the market in investment trust company's shares is not a very active one.

Finance Companies.

Finance companies are closely allied to Investment Trusts, though the term is loosely applied to a number of different types of undertakings. As a rule, the term indicates a class of company (much in evidence in gold mining, in foreign railways,

in plantations, and in copper and tin mining industries) which conducts investment business on more speculative lines than the Investment Trust, as the average finance company is interested in only a relatively small number of undertakings, usually of the same type (*e.g.*, mining companies), and, in consequence, its business tends to be highly speculative. Profits derived from the purchase and sale of securities are treated as revenue and distributed as dividends.

Moreover, finance companies do more than merely invest their funds in established undertakings. They frequently form new enterprises ; finance them in their early stages ; control them ; perform their secretarial and administrative work ; develop them into successful ventures ; and then place the shares on the market for public subscription. The offering of shares for public subscription returns to them their capital for investment in other ventures, while they frequently derive good profit for the risks they run by the realisation of shares retained by them in the concerns they develop.

The Company Promoter.

The majority of joint-stock undertakings obtain their initial capital through the operations of the company promoter. The promotion may be carried through by a parent company interested in the formation of some subsidiary or allied business ; by the vendor of the assets to be purchased by the new company, or by a financier who specialises in the flotation of new companies. The last is the most usual form. It is the promoter who attends to the preliminary details necessary before a company can commence business. He induces suitable persons to act as brokers to the issue—since the standing of the broker whose name appears on the prospectus gives some indication of the value of the new issue. Not the least of his duties is to make arrangements for underwriting. He is in touch with persons who are willing to act as guarantors of the success of a public issue, and with them he enters into agreements for *underwriting* the issue of capital or debentures.

Underwriting New Issues.

Large issues are almost always *underwritten* ; that is to say, the financial houses or promoters concerned in the flotation make arrangements with banks, insurance companies and other large investors, whereby the latter agree to be responsible for a certain amount of the issue, so that if the whole issue is not fully subscribed each of the underwriters must take up and pay for his proportion of the balance. For this service the underwriters receive an *underwriting commission* amounting, on first-class securities, to about 1 *per cent.*, and on other classes up to 5 *per cent.* ; if the underwriting commission is over 5 *per cent.*

the issue may be considered to be of a precarious nature, while in no case must the underwriting commission exceed 10 *per cent.* (*Companies Act*, 1929).

By way of illustration we may assume that an issue of debentures is made for £1,000,000 at 95 *per cent.*, of which the public applies only for one-quarter. Then a company which had underwritten £10,000 would have to take up £7500 of the issue, for which it would pay the issue price, namely, £7125, though against this it would receive, say, 1½ *per cent.* commission on £10,000 underwritten, *i.e.*, £150, so that the net cost would be £6975, or 93 *per cent.*

In some cases underwriters who are particularly desirous of securing a certain amount of the security issued will "*underwrite firm*"—that is to say, they apply to have the amount allotted to them in full, irrespective of the amount subscribed by the public. They thus get their commission and so much of the stock as is allotted in respect of the amount applied for—or the whole—according to agreement, the former being the more usual.

Overriding Commission is commission paid to a person introducing underwriters, or commission which is retained by an issuing house when passing on underwriting to sub-underwriters.

Other Methods of Long-Term Finance.

So much has now been said about the methods by which a company obtains long-term capital for its operations that the reader might be led to think that this is the only source of supply open to a trading concern in need of capital. This, of course, is not so. Although it is true to say that a joint-stock company in need of capital for a lengthy period will usually have resort to an issue either of shares or debentures, yet it must not be forgotten that by no means all commercial houses exist in the form of companies. The individual trader and partnership are not yet dead, and some of the most prosperous concerns are privately owned.

How, then, do these concerns satisfy their capital requirements? In the first place, despite the fact that theoretically banks lend only short-term capital, there is no doubt that in practice many loans by banks to private traders are in effect loans of long-term capital and not merely of working capital. But to a still greater extent private businesses obtain fresh capital from loans arranged with business associates and friends through the intermediary of solicitors; other sources of supply are the building societies and insurance companies. Private traders and partnerships have also open to them the possibility of taking other persons into partnership, thereby acquiring new blood and new capital.

Probably the steadiest flow of capital into private concerns

is that which springs from the reinvestment of profits. This, of course, is possible only when profits are sufficient to yield a surplus over and above what is required by the proprietors for their own personal needs. A parallel procedure, where joint-stock companies are concerned, is the transfer of part of the profits to "Reserves" instead of its distribution as dividends.

Holding Companies.

A holding company may be defined as one which, by the ownership of the majority of the shares in another company or companies, is able to control the operations of those other companies (known as *subsidiaries*) The growth of this type of concern has proceeded on lines parallel to the development of large-scale enterprise; the two tendencies are in fact interdependent and mutually explanatory, and nowadays it is no uncommon feature to find a holding company or parent concern controlling and providing the necessary financial resources for anything up to fifty subsidiaries.

The economies and advantages of this procedure are fairly obvious, for whereas an issue of debentures by a relatively small company calls usually for extra favourable terms to the investors, a large company can rely upon its reputation as a backing to its issues and is generally able to obtain long-term finance on terms which are substantially more favourable to itself.

THE STOCK EXCHANGE

A Stock Exchange is a market for the purchase and sale of stocks and shares. Buyers and sellers within the exchange, and also buyers and sellers on different exchanges, are in direct communication with one another, by telephone, telegraph and cable. The methods of quoting shares, of making bargains and of settling transactions are definitely fixed and widely known; prices are speedily circulated, extensively quoted and easily understood, while the high moral standard which exists throughout the market is far more effective than the strictest legal control for preventing fraud and minimising risks. The stock exchanges are perhaps the best organised and the nearest to perfection of all markets. Some stocks and shares, *e.g.*, the stock in certain American railways, Government issues and Suez Canal shares, are of international repute and enjoy, therefore, a world-wide market.

The London Stock Exchange.

Although there are stock exchanges in the leading provincial cities of Great Britain, the largest and most important in the country is the London Stock Exchange, which was originally founded at the beginning of the nineteenth century and reorganised in its present form in 1886. It has its place

of business, or " House," in Throgmorton Street, London, E.C., and is in close touch with other exchanges not only in the provinces but also overseas.

In point of fact, the London Stock Exchange is not a single market but a collection of markets, for different classes of shares are by custom dealt in on different parts of the floor of the House, and the dealers in each particular class of shares gather in their own corner to do business. The chief markets are as follows:—

LOANS :—

British Funds and Guarantee Stocks.
British Corporation and County Stocks.
Colonial Government Stocks.
Indian and Colonial Corporation Stocks.
Foreign Government Bonds.
Foreign Municipal Bonds.

CAPITAL AND LOANS :—

Home Rails (*i.e.*, British Railway Securities).
Indian and Colonial Rails.
American Rails.
Foreign Rails.
Banks and Discount Companies.
Breweries and Distilleries.
Canals and Docks.
Electric Lighting and Power.
Financial Trusts, Land and Property.
Gas.
Investment Trusts.
Iron, Coal and Steel.
Mines (subdivided for certain metals and areas).
Nitrate.
Oil.
Rubber.
Tea and Coffee.
Telegraphs and Telephones.
Tramways and Omnibuses.
Water Works.
Commercial and Industrial Securities (these include all those remaining securities not covered by any of the foregoing).

The Commercial and Industrial group is further subdivided into special markets for such groups as: Newspapers and Printing; Textiles, Stores and Caterers; and Shipping. Similarly, the Mining group of Securities is subdivided into Transvaal (commonly known as " Kaffirs "), Rhodesian, Australian, West African and Miscellaneous.

The Gilt-Edged Market.

Perhaps the most important section of the Exchange is the Gilt-Edged Market, which comprises those sections concerned with dealings in absolutely first-class securities such as Government Stocks, Public Funds or Parliamentary Stocks of the United Kingdom, certain Municipal and Colonial Stocks, Home Rails and Indian Railway Stocks, and Treasury Bonds. Most of these stocks are *Trustee Securities*, and all of them are considered to be absolutely safe.

Movements in the prices of gilt-edged securities may arise from a variety of causes. A rise in money market interest rates will result in a fall in the price of gilt-edged securities, thereby levelling up the net rates of interest. Political events, too, are reflected in the gilt-edged markets as are also changes in the general outlook. Thus, when a Government which does not enjoy general confidence is in power a fall in gilt-edged prices usually results.

The other sections of the market are subject to much larger fluctuations which spring from causes far too wide to enumerate. Thus, silver mining shares tend to fall in price if the price of silver falls, whilst shares in the motor industry may be expected to rise on a reduction in the horse-power tax.

Trustee Securities.

Certain classes of security are named by Section 1 of the *Trustee Act*, 1925, as being securities in which a trustee may invest trust funds, unless specially forbidden by the Trust Deed. If a trustee invests the trust funds in such securities, he will not be held liable for any loss that may be sustained.

The securities are enumerated in a long list, and include Government securities, municipal stocks, etc., *i.e.*, most of those securities which are generally regarded as "gilt-edged."

Section 2 of the Act permits the purchase at a premium of redeemable stocks, but sub-section 2 of the same section prohibits this in the case of certain investments which are liable to redemption at par or any other fixed rate within fifteen years of the date of purchase, or which stand at a premium exceeding 15 per cent. above the redemption value.

Control and Management.

The London Stock Exchange is a voluntary association of the proprietors of the Exchange building, who meet there to deal in shares under the rules laid down by the *Committee for General Purposes*. The Management, which appoints the officials of the Exchange, other than the secretary and the Official Assignee, is entrusted to nine elected members (known as the *Trustees and Managers*), three of whom retire every five years.

The Committee for General Purposes consists of thirty members elected annually by the others. Its main duties are to make and amend the rules; to appoint the secretary; to admit and readmit members and authorised clerks of members; to give authority for the transaction of arbitrage business; to suspend or censure members; to readmit defaulters; and to notify the public of suspension of members. Members may be suspended if they break, or fail to comply with, the rules, or if they are guilty of dishonourable conduct. When a member fails to meet his obligations he is "*hammered*" and posted as a defaulter. "Hammering" is an ancient custom which consists of an official of the Exchange mounting a rostrum on the floor of the House and tapping with a hammer somewhat similar to an auctioneer's hammer. The attention of members having been obtained, the defaulting member's name is announced, together with the fact that he is unable to meet his obligations, and the name is afterwards posted on the House notice-board.

All disputes among members must be referred to the Committee for settlement, and members are prohibited from taking legal action against one another without the consent of the Committee. Although this system has worked with great success and has maintained an exceedingly high standard of business morality among the members, it has its advantages and its disadvantages. In its favour is the fact that it permits disputes to be settled promptly and inexpensively. Secondly, it is not governed by precedent, judgment being given strictly according to the merits of each case. Thirdly, the power of the Committee to expel or suspend a member promotes a higher moral code than any legal enforcement. On the other hand, there are the disadvantages that identical and recurring problems may be decided in totally different ways at various times; that time is lost owing to results of previous findings not being recorded for future guidance, and that a member's legal rights may be waived in favour of a submission to arbitration, the issue of which is not certain.

Membership of the Exchange.

Membership of the London Stock Exchange is strictly regulated and entry is difficult. Members are of two classes:—

1. Jobbers, who actually buy and sell stocks and shares. By the rules of the Exchange, jobbers may do no business direct with the public, but deal only with members of the Exchange. They make their profits from the difference between the prices at which they buy and sell the same stocks and shares. A jobber may not enter into partnership with a broker.
2. Brokers, who buy and sell on behalf of members of the

public, and charge a commission (or brokerage) for their services. By the rules of the Stock Exchange brokers are not allowed to advertise for business.

All members must apply for readmission to the Exchange every year (in March), and the re-election is made by the Committee.

Apart from the jobbers and brokers themselves, who are members of the Exchange, transactions are also carried out by persons known as *Authorised Clerks*, who are employees of stockbroking firms, and are authorised to make contracts (*i.e.*, to buy and sell) on behalf of their employers. These are distinguished from *Unauthorised Clerks*, who are privileged to enter the house to assist their employers, but are not authorised to deal for them.

Jobbers and Brokers.

The functions of jobbers and brokers are quite distinct. Whereas the broker is but an intermediary who acts *as an agent* for the outside public, for jobbers and for other brokers, and who takes his profit in the form of a commission or "brokerage" (which is fixed by the rules of the Stock Exchange), the jobber is *a principal* and acts entirely on his own behalf. The broker undertakes to buy or to sell stocks and shares *through a jobber or jobbers.*

The jobber is peculiar to the London Stock Exchange, though steps are being taken to distinguish two classes of members on the New York (Wall Street) Exchange.

The fact that the jobber is at all times ready to quote a double-barrelled price for buying or selling any of the securities in which he specialises tends to prevent wild breaks in prices. On other exchanges a rush to sell a particular security results in a fall which is often entirely disproportionate to the true fall in value, simply because no buyers can be found; similarly, heavy "bulling" in a security brings about an exaggerated rise which must be adjusted by a subsequent fall. On the London Stock Exchange, however, the jobber smooths out these wild fluctuations. If selling is expected in a certain security he "marks down" his prices in anticipation, but the margin between the selling and buying prices which he offers must not be too large, otherwise brokers will look askance at him. It is not simply the existence of the jobber which is of such great value, but rather the fact that he will *make a market* in securities by quoting a double-barrelled price *without knowing whether the enquirer will turn out to be a buyer or a seller.* The difference between the prices at which the jobber buys and sells is known as the "*Jobber's Turn.*"

The jobber fixes his price with reference to ruling market-prices and with a view to keeping his book square. Sometimes,

of course, he deliberately takes up a position in a given security, in the hope of taking a profit from a movement in the price; but usually he fixes his price so as to even up his purchases and sales. If he finds he is holding too much of a given security he will have to lower his price to encourage purchases and discourage further sales. If, on the other hand, his position in a certain security becomes "oversold," he must raise his price to encourage brokers to sell to him. In this way the jobbers "take up the slack" on the market by regulating their prices to reflect market conditions.

Outside Brokers.

Besides the many firms of stockbrokers the partners of which are members of the House, there are *outside brokers*, that is, dealers in stocks and shares who are not members of the Stock Exchange. Some of them have big businesses and have a good reputation, but prefer to remain outside the Stock Exchange to be free from the regulations laid down by the Committee, and especially from the embargo on advertising. Most investors, however, prefer to deal with members because the committees managing the Stock Exchange are very strict, and the members are, and must be, scrupulous in all their dealings. Outside brokers, on the other hand, may be nothing more than "bucket shops," which are not engaged in legitimate business, but cater for the speculative type of investor whose dealings are often purely a gamble, consisting merely in the payment or receipt of "*differences*" in the prices of securities which actually never change hands. Firms of this nature often make their profits by boosting worthless shares and inducing ignorant speculators to invest in dubious concerns. All outside brokers are not of this type. On the contrary, there are several which have very good reputations.

Prevention of Fraud (Investments) Act, 1939.

This Act was passed to safeguard the investing public against the evils of share-pushing and share-hawking and against the dishonest activities of outside brokers. Its purpose is to regulate dealings in securities.

The Act prohibits a person from carrying on the business of dealing in securities unless he holds a "*principal's licence*," issued by the Board of Trade. Anyone acting as the servant of such a person in such business must hold a "*representative's licence.*" All licences must be renewed every year. Members, or authorised representatives of members, of a recognised stock exchange or association of dealers, the Bank of England or exempted dealer, any statutory or municipal corporation or any industrial and provident society or building society, and authorised trustees or managers of unit trusts are excepted.

A principal's licence will be issued only when a deposit of £500 has been made, except where an approved person guarantees payment of that amount on the bankruptcy or liquidation of the applicant, or where the applicant would be caused undue hardship. Licences may be refused or revoked for failure to supply information required by the Board of Trade, conviction in the United Kingdom for fraud or dishonesty or for an offence or breach of regulations under the Act, or by reason of any other circumstances reflecting discredit upon the licencee's methods of business. The Board of Trade may by rules regulate the class of person with which such licencees may deal, the form of contract, the books, accounts, and other documents to be kept, and require the holder of a principal's licence to allow inspection by his client of contract notes, vouchers and entries in books. The names and addresses of holders of principal's licences will be published.

The Act aims also at preventing fraud by providing that a person will be guilty of an offence if he induces another person to: (*a*) subscribe for or acquire securities or share in the profits from fluctuations in the value of securities; (*b*) participate in the profits of the acquisition of property other than securities (*e.g.*, a fruit-growing scheme); (*c*) participate in the profits from the fluctuations in value of property other than securities "by any statement, promise or forecast which he knows to be misleading, false or deceptive, or by any dishonest concealment of material facts, or by the reckless making of any statement, promise or forecast which is misleading, false or deceptive."

The distribution of circulars for any of these purposes is prohibited except in the case of prospectuses, persons holding a principal's licence or excepted from holding a principal's licence (see above), and persons whose ordinary business is to buy and sell the particular commodity.

Stock Exchange Reform.

The agitation for the reform of the London Stock Exchange is a perennial problem. This does not imply a condemnation of the Stock Exchange or of its existing methods, but merely a feeling that the system could be improved. The three main points on which criticism is levelled are the *dual control* system, the laxity of provisions for *election to membership and overcrowding*, and the futility of the *ban on advertising*.

DUAL CONTROL.—The financial side of the undertaking is in the hands of trustees and managers who are responsible to the proprietors (the member shareholders). But matters concerning bargains, settlement of disputes, framing of regulations, etc., are within the discretion of the Committee for General Purposes, a body of thirty, which is elected annually by the members.

Control is thus divided between a body responsible only to the proprietors (approximately 3000) and a body responsible, morally if not legally, not only to these members but also to the State, the Law, and the investing public. The trustees have final powers of decision over all matters relating to finance; consequently, whenever the interests of the proprietors are at variance with the interests of the public, the former prevail. The view is widely held that the Exchange should be governed by a full-time Governor, directing a specialised full-time staff, and assisted by an advisory Committee of members.

Election to Membership.—There are four methods of election to the Stock Exchange: (1) A man with no previous experience of the work may purchase a nomination; (2) a man with four years' experience in the Settling Room and the House (with three years in the House) may purchase a nomination and secure election; (3) a clerk may get admitted from Waiting List A by securing a nomination; (4) a clerk may be admitted from Waiting List B without nomination; the cost declines progressively from 1 to 4.

The cost of gaining admission is said to be too low and to permit the admission of undesirable members, although it is admitted that the present system does possess the advantage of allowing a man of ability to rise from the bottom to the top. In the public interest the desirable attributes for a Stock Exchange firm are money or brains, or preferably both, and to ensure this it has been proposed: (1) that the subscription for individual members should be considerably increased, and each member should be required to deposit £2500, to be held permanently; (2) that membership by firms should be instituted at a slightly lower fee per partner, and these firms should be allowed to utilise the services of a limited number of "House" men without extra charge. The last proviso is intended to permit men of outstanding ability but limited means to attain membership of the Exchange by working first as "House" men and thence leading up to partnership. By these means the number of members would be limited and the standing of members would be raised.

Ban on Advertising.—At present Stock Exchange firms may circularise their existing clientele but must not advertise publicly. Instances of the enormous clientele secured through advertising by certain outside brokers, some of doubtful reputation, have been cited as proof that the inside brokers are at a disadvantage in not being allowed to advertise. The weight of opinion among members is, however, against the removal of the ban, because they fear the intensifying of competition and the development of a scramble for business, though this could be guarded against by judicious rules as to the style of advertising to be followed, *e.g.*, an advertisement stating that the firm was a member of the Exchange and was open to do stock business

would hardly be likely to create an atmosphere of "fighting for business."

Given the right to advertise, members of the Exchange would be able to compete on favourable terms with outside brokers, and many members of the public, who at present deal through the latter class, would probably transfer their custom. It is probable also that fewer transactions would be passed through the banks, and the brokers would thereby save the half-commission which goes to the banks. Finally, it is said that if Stock Exchange facilities were more openly brought to public notice, there would be a greater willingness to invest.

Permission to Deal.

At the head of almost every prospectus advertised is found the statement: "Application will be made after allotment to the Committee of the Stock Exchange for permission to deal in the shares of the Company." The importance of this will be at once realised, for once permission has been granted by the Committee, a market is created for the shares: if permission is refused, a holder of shares has considerable difficulty in disposing of them at a fair price.

The London Stock Exchange has definite rules laid down regarding the types of shares that can be dealt in by its members, and when application is made for permission to deal in new issues certain documents and particulars must be forwarded to the Secretary of the Stock Exchange Share and Loan Department. The principal documents required are:—

(*a*) The Company's Certificate of Incorporation.
(*b*) The Certificate entitling the Company to commence business, *i.e.*, the Trading Certificate.
(*c*) The Memorandum and Articles of Association of the Company.
(*d*) A copy of the resolutions authorising the issue.
(*e*) Certified copies of the contracts relating to any shares issued and credited as fully paid.
(*f*) A copy of the allotment letter, and, if possible, of scrip and definitive certificates.
(*g*) A letter giving the distinctive numbers of shares issued or unissued, and in the case of a further issue, stating to what extent the shares are identical with existing shares.
(*h*) The approximate date when definitive certificates will be ready for issue.
(*i*) A list of allottees or present holders of shares.
(*j*) Usually, particulars of underwriting and sub-underwriting agreements (if any).
(*k*) A copy of the prospectus, if any.

(*l*) An undertaking, in the case of holding companies, that a consolidated balance sheet and profit and loss account will be issued to shareholders.

These documents must be accompanied by a letter giving an undertaking in respect of several matters in connection with the issue, and, if no prospectus is issued, an advertisement must be inserted in two leading London morning papers, giving full particulars concerning the issue, and a signed copy of the advertisement must be lodged with the Share and Loan Department.

In all cases, however, the mere fact that a company has complied with the requirements does not ensure the granting of permission to deal. The matter is subject to the discretion of the Committee, and if that body has reason to suspect that anything is not quite as it should be, it will refuse its permission. In this manner the Stock Exchange endeavours to protect the investing public by means of a detailed investigation of the *bona fides* of companies applying for permission to deal. Omission on the part of a company to make this application will deprive its members of an "official" market for their shares, thus compelling them to resort to outside brokers in order to realise their shares—a matter which *may* not always be arranged without difficulty.

Official Quotations.

The Official List published by the Committee of the Stock Exchange each day contains a list of prices certified by the Committee for certain securities which have been granted an official quotation. Before such a quotation is granted the Committee requires to be satisfied that the Memorandum, Articles and Share Certificates of the company are in an approved form; permission to deal must have been granted; the definitive stock or share certificate, and at least the first Annual Report and Accounts must have been issued; and the issue must be of sufficient public interest and of sufficient magnitude and importance. The articles of association of the company must contain stipulated provisions, *inter alia*, relating to the share qualification and other matters in connection with directors; the borrowing powers of the directors; the non-forfeiture of dividends; the transfer of shares; and interest on calls paid in advance. In addition, certified copies of the Memorandum, Articles, Prospectus, definitive documents, material contracts, the last published Report and Accounts, and the Share Register, must be submitted, together with a short history of the Company setting forth its origin, progress, dividends and particulars of shares and transfers, a statutory declaration stating that all legal requirements have been complied with, and an undertaking under seal to notify the Share and Loan Department of

any alterations in the Memorandum, Articles or other document affecting the constitution of the Company.

If a quotation is granted, the company must send to every member, at least seven days before the annual general meeting, a printed copy of the report and published accounts of the company, and three copies to the Secretary of the Share and Loan Department of the Stock Exchange.

It will be seen that the regulations of the Stock Exchange in this connection are extremely stringent, and unless they are complied with a shareholder will be deprived of the information afforded him by a published official quotation of his shares—a quotation which is certified by the Committee of the Stock Exchange and readily accepted as a basis of valuation for probate and other purposes.

The prices of shares and debentures of companies which have obtained an official quotation are published in the Stock Exchange Daily Official List. The list is issued daily and shows the two prices at which it is supposed that the securities could be bought or sold. In another column is given a list of the prices at which dealings have taken place during the day. The prices appearing in this column are collated by the Committee from slips which are dropped into a special "box" by brokers and which indicate the prices at which bargains have been done; such bargains are said to be "*marked.*" The prices at which business was done in securities which have not been granted an official quotation are quoted similarly in the *Supplementary List.*

The following reproduction of an extract from the Stock Exchange Daily Official List includes the quotation on a given day for $2\frac{1}{2}$ per cent. Consols, and shows clearly what the list furnishes. The headings for other classes of securities are modified somewhat to include other information which may be necessary, such as dates of drawings and numbers of bonds extant.

Stock Exchange Daily Official List

SPECIMEN EXTRACT.

Amt.	Present Amount.	Int. Due.	When x.d. or x. in.	Per Cent.	Name.	Quotations 14th July.	Business done.
....	£276,225,755	5th Jan. 5th April 5th July 5th Oct.	3rd June	$2\frac{1}{2}$	$2\frac{1}{2}$ per cent. Consolidated Stock Redeemable on or after 5th April 1923	$55\frac{3}{4}$ $-56\frac{1}{4}$	$55\frac{7}{8}$, 56, $56\frac{1}{8}$, 56, $55\frac{7}{8}$, etc.

The nominal amount, that is, the face value of a security, is called the *par* value, and, if the price quoted is exactly the face value, the security is said to stand at par; if the price is above the face value, it stands at a *premium*, and, if below, at a *discount*. When a security is only partly paid up, the premium or discount is calculated on the nominal value of the security but is added to or deducted from the amount paid up. Thus, if a stock is £20 paid up (per £100), but is quoted at 6 per cent. premium, the price is £26 per £100 of stock.

Securities: Bearer, Registered, and Inscribed.

The securities dealt in on the Stock Exchange may be variously classified: they may represent shares in a company or bonds of indebtedness of a company, municipality or nation. In either case the securities fall into three broad classes. These are :—

(1) Bearer Securities (bearer bonds, bearer stock, share warrants to bearer), the property in which passes with mere physical possession, and transfer of which on sale is effected by mere delivery.

(2) Registered Securities, which are the property of the persons entered as owners in the register of the issuing body. The owner of registered stock or shares receives a certificate made out in his name, stating that he is the owner of such and such stock or shares, the nominal value being given as well as the numbers of the shares. When an owner of registered securities sells them, both he and the buyer sign a document known as a *Transfer Deed*, and this, with the Share Certificate, is lodged at the office of the issuing body so that the necessary alterations may be made in the register. Then the old certificate is cancelled, and a new one made out to the purchaser.

(3) Inscribed Securities, for which no certificate of any kind is issued. The names of the owners of such stock are inscribed in registers kept, usually, at a bank, frequently the Bank of England. When such stock is sold, the seller attends personally at the bank to sign a transfer, and must be accompanied by a member of the Stock Exchange to identify him. If the seller cannot attend, he must give a legal power of attorney to some other person to take his place.

The advantages and disadvantages of these types of securities arise mainly in respect of security and convenience.

Inscribed securities give the holder the greatest security from theft, loss or fraud. There is no certificate to be stolen, the seller has to attend personally or by attorney at the registering authority to effect transfer, and he must be identified by a

member of the Stock Exchange. Against this advantage must be set the great disadvantage of inconvenience in transfer, although this is reduced by appointing a stockbroker as attorney.

Registered securities are almost as safe as inscribed securities, but there is always the possibility of the certificate being lost or stolen and the shares fraudulently transferred. Even if no financial loss ensues, there will be much trouble in putting matters in order.

Transfers of both inscribed and registered securities must bear an *ad valorem* stamp duty, which adds to the cost of the transfer borne by the buyer.

Bearer securities are stamped when first issued and no duty is, therefore, payable on transfers. They are most convenient to handle, but there is the disadvantage that, since they are negotiable securities, their loss or theft may lead to financial loss, because a person taking them in good faith and for value from the finder or thief obtains a good title to them. Further, the holder has to claim his dividend or interest when it falls due, since the company or other issuing authority has no record of the addresses of holders.

Foreign Stocks and Shares.

The prices quoted on the London Stock Exchange for stocks and shares issued in a foreign country and of denominations expressed in foreign currency are usually in sterling. The sterling quotation is made for the approximate equivalent of £100 sterling, and for this purpose a rough approximation of the pre-war mint parity with the country concerned is taken as a basis. For example, the par with France is taken as 25 francs per £, that with Germany as 20 marks per £, and that with the United States as \$5 per £, and quotations for securities issued in these countries are made in respect of 2500 francs, 2000 marks and 500 dollars respectively.

The "*parity price*" at which a foreign security should be quoted in London can thus be calculated by a comparison of the price ruling in the foreign centre with the current rate of exchange on that centre. For example, on a certain day French 5 per cent. Rentes were quoted in Paris at 102 (*i.e.*, 102 francs per 100 francs nominal). On the same day, the rate of exchange between London and Paris was 124·00 francs per £. The London parity price would therefore be :—

$$£\frac{102 \times 2500}{124 \times 100} = £20{\cdot}565,$$

which corresponds very nearly to the current quotation in London of $20\frac{9}{16}$.

In calculating the London parity price of American securities, the accrued interest must be added to the price quoted in New

York, since the London price already makes allowance for this factor.

Shares of "No Par Value."

Many American companies issue shares of "no par value," *i.e.*, shares which have no nominal value, but merely represent a share in the company's assets. Thus, if a company issues 50,000 ordinary shares with no-par value, each share represents $\frac{1}{50000}$ of the surplus remaining after deducting from the company's net assets the par value of any prior shares issued. Moreover, the holder of such a share is entitled to $\frac{1}{50000}$ of the profits remaining after paying what is due to the prior shareholders. Shares of no-par value are sometimes shown in the company's balance sheet at the price paid for them on issue; alternatively, they may be included at the value represented by the surplus of assets mentioned above.

It has been suggested that no-par shares should be issued in this country, as they are claimed to introduce greater elasticity into the capitalisation of companies, in that a no-par share can be issued at any price and its value in the balance sheet can be written up or down in accordance with variations in the total value of the assets. It is also claimed that if no-par shares are issued in payment for goodwill the evil of overcapitalisation is avoided.

Though there is no doubt that the no-par share has been found useful in America, it seems that it has given rise to certain abuses owing to the facilities it offers to unscrupulous financiers to manipulate the published accounts of companies they control. The existence of a nominal value, which cannot be altered without the sanction of the Court is a valuable safeguard to investors which should not lightly be given up.

Prices of Stocks and Shares.

The prices of the various stocks and shares may fluctuate very widely. Thus the value of shares in a certain gold mining company may go up with a bound upon the discovery of a new lode of gold ore, or it may fall with equal rapidity on the rumour that the mine is nearly exhausted. The rapid rise of prices in a particular market is called a *boom*, while their rapid fall is called a *slump*.

MARKET PRICES are the prices at which the shares have been bought and sold on 'Change. These prices are published each day in the Stock Exchange Lists, and reproduced in the daily papers.

STREET PRICES are those prices at which stocks and shares are bought and sold in Throgmorton Street outside the House, *i.e.*, in the so-called "Street Market," where, at busy times, buying and selling often go on after the Exchange is closed.

Tape Prices.—The Exchange Telegraph Company installs and operates in the offices of subscribers a machine which re produces on strips of paper (tape) current news messages sent out from its headquarters, and this method is widely used for sending out particulars of Stock Exchange prices throughout the day as deals take place. Thus men sitting in a club in the West End of London may watch tape issuing constantly from the tape machine and see particulars of the prices paid, almost deal for deal, as they are negotiated in the House.

Flat Prices.—Securities dealt in on the London Stock Exchange are nearly always quoted at *flat* prices—that is to say, the prices include all accrued interest or dividend on the securities concerned. Thus, although securities may be bought only a short time before a half-year's interest is due, the purchaser will be entitled to receive the whole of that half-year's interest from the company (or Government, etc.). A short time before interest is due (generally about a fortnight), a company will close its books to any further transfers of its securities until the interest has been paid. Consequently, a buyer at this time will not be registered as owner, and the company will pay the interest to the seller. The buyer must, therefore, see that his stockbroker obtains payment of the interest from the seller and hands it over to him the buyer). In such circumstances the purchaser is said to buy the security *cum dividend*, or, shortly, "*cum-div.*"

A few days after the closing of the books, however, on a day fixed by the Rules of the Exchange and varying with the type of security, prices of the security are quoted *ex dividend* (*ex-div.* or *x. d.*), and the buyer is then not entitled to the interest, which remains the property of the seller.

The prices of a few securities, notably Exchequer Bonds and India Rupee Paper (these are specially marked in the Official List), are quoted *firm*—that is to say, the buyer has to pay, in addition to the quoted price, the proportion of interest accrued to date since the last interest payment. In America and Continental countries prices of fixed-interest-bearing stocks are generally quoted firm, but this does not apply to ordinary stocks and shares on which the dividends may vary.

Besides the interest or dividend, certain shares are issued by companies with the right, or "*option*," on the part of the holder for the time being to take up other shares within a certain period at a certain price. If the value of the shares rises above the price at which they are under option this right becomes valuable, and the shares are either sold with the rights (i.e., *cum rights*) or they are sold *ex rights*.

Where shares are sold "*ex all*" the buyer obtains no rights other than to the shares themselves, and any claim to dividends or rights attaching to the shares remains vested in the seller. The price of *shares* is quoted as so much *per share*, whilst stock is quoted as so much per £100 of stock.

Dealings "for Cash" and "for the Account."

Dealings on the Stock Exchange may be either "*for Cash*" or "*for Account.*" The only difference between the two classes is that in the former case actual delivery of the securities and payment for them takes place as soon as possible after the deal has been concluded, whereas deals on the latter basis are not settled until the arrival of the next "Account Day." British Government funds are usually sold "for Cash."

Following the outbreak of war in September, 1939, it was decided that all dealings should be for cash. The procedure for "account" dealing is, however, shown below.

The Settlement.

At intervals of roughly a fortnight (each fortnight being referred to as an "Account") a settlement takes place, when all transactions entered into during the Account must be completed by delivery of securities and payment of cash. The settlement officially lasts four days.

CONTANGO DAY, the first day, is that on which the parties to a transaction decide whether the bargain shall be completed, or held over till the next settlement. The latter course is taken in cases where it is not desired to pay over the money or to deliver the securities immediately. The charge for the privilege of postponement, which must usually be paid by a buyer who cannot hand over the necessary money, is called *Contango*; in some cases, however, an allowance known as "*Backwardation*" may be paid to buyers carrying over, the allowance being charged to sellers failing to deliver (see also page 699).

Although it has no place in the Rules of the Stock Exchange, a *Preliminary Contango Day* has recently become an established procedure, contangoes frequently being done on the day preceding Contango Day.

The second day of the settlement is known as *Ticket* or "*Name*" *Day*, when "tickets" showing the names of actual buyer of securities are handed over by the buying broker to the jobber, so that transfers may be made out in the proper names.

The third day is known as "*Intermediate*" *Day*, when documents are prepared for the completion of transactions.

Settling Day or "*Account*" *Day* is the last day, when payments are finally made, either for completing transactions or for carrying over bargains to the next settlement.

How Securities are Bought and Sold.

When a broker receives an order to purchase, say, £1000 of X Stock, he asks a jobber who deals in that class of security to "make a price" for the stock in question, without indicating whether he wishes to sell or buy. The dealer informs the

broker that the price "is called" (say) 101–102, *i.e.*, that he will buy the stock at 101 and will sell at 102.

The first price quoted will usually be too wide, *i.e.*, the margin between buying and selling prices will be too great, and the broker will ask for a closer price, until finally a price is agreed at which the jobber will sell and the broker will buy. When this stage is reached, possibly when the price has narrowed to $101\frac{1}{4}$–$101\frac{3}{4}$, the broker will close with the jobber and indicate that he is a buyer. No written contract passes at the time between the broker and the jobber, the transaction being merely entered in a dealing or jobbing book. The broker may, however, wish to have the transaction "marked," in which case particulars of the transaction are placed in a box and later posted on a board and published in either the Official or the Supplementary List issued on the following day.

The broker's clerks enter the transaction in a journal or Day Book, and a *Contract Note* is made out bearing the date, the name and address of the broker, the particulars of the stock, amount and price agreed upon, the commission (brokerage) charged by the broker, the amount of the contract stamp, the amount of the transfer duty and the registration fee payable to the company for registering the transfer. This contract note is sent to the client. The bargain is checked next morning by the broker's and jobber's clerks, who meet in the settling rooms, and confirm to each other particulars of the deal.

When the Settlement arrives ("for settlement 17th March 19 " in the specimen Contract Note indicates the next settlement day), the broker passes to the jobber, on Ticket Day or

CONTRACT NOTE.

YORK & CO., H. YORK. J. BELL.	90 THROGMORTON STREET (and STOCK EXCHANGE), LONDON, E.C.2.
Telegrams: "Yorkell, Stock, London." *Telephone:* Cent. 9999.	March 7th, 19......

Bought for *Arthur Bright, Esq.* (subject to the Rules, Regulations, and Customs of the Stock Exchange, London).

440 Amalgamated Zinc Shares @ £1⅛ . .	*£495*	*0*	*0*
Govt. Stamp, *£5*; Transfer Fee, *2s. 6d.*; Commission and Stamp, *£5 11s.* . .	*£10*	*13*	*6*

For Settlement *17th March 19......*

1/- stamp.

Roland York & Co.,
Members of the Stock Exchange,
London.
Bertram York.

Name Day, a ticket showing the name and address of his client, and his own name as immediate payer for the stock. The ticket arrives finally in the hands of the selling broker, who makes out a form of transfer, has it signed by the seller, and returns it, together with the certificates of the stock, to the buying broker. The latter pays for the stock, obtains his client's signature to the transfer, and registers the transfer with the company, which, in due course, forwards new certificates in the name of the buyer.

Share Transfers.

Mention has been made of the share transfer which must be prepared and forwarded to a company when any of its shares are being transferred. There is no fixed standard form for this purpose, but the requirements of the Company's Articles of Association must be complied with, whilst companies which desire an Official Quotation must prescribe in their Articles that the "Common Form" of Transfer shall be used (see page 700). Transfers must be duly stamped *ad valorem* at the rate of 1 *per cent.* on the consideration (*i.e.*, on the price paid for the securities).

Certified Transfers and Balance Tickets.

It sometimes occurs that a shareholder desires to sell part only of his holding, *e.g.*, he may hold 1000 shares and wish to sell only 500. The procedure on sale is then slightly modified. The seller sends his certificate to his broker with the duly signed transfer form, and the broker takes or sends the two documents along to the Company's office. There the Secretary indorses the transfer form with words such as, "Certificate for within shares has been deposited at the company's office," and returns the form to the broker, who can then deal with it in the usual way. If necessary, the Secretary of the company will issue what is known as a Balance Ticket for the remaining shares, which the original holder may use for the purpose of effecting further sales. This ticket must be handed up to the company in exchange for the new certificate covering the remaining 500 shares.

To facilitate the procedure, transfers of stock and of fully or partly paid shares quoted in the official list can now be certified by the Stock Exchange. The transfers and certificate are deposited with the Stock Exchange, who certify the transfer and forward the certificate, together with particulars of the transferee, distinctive numbers of shares transferred, and instructions as to the disposal of the balance (if any), to the company concerned.

Certification by the company secretary is also resorted to in cases where the certificate is in some way defective, *e.g.*, where the holder's name or address has been changed. In

COMMON FORM OF TRANSFER.

I/We *John Brown of 17 East Street, London, E.C. 2,*

in consideration of the Sum of *One hundred pounds* (See Note.)

paid to me/us by *Horace Smith of the Laurels, Devon Road, Plymouth, Director*, hereinafter called the said Transferee , do hereby transfer to the said Transferee *One hundred fully-paid £1 Ordinary Shares, Nos. 201-300,* in the undertaking called the *Acme Manufacturing Company Limited,* TO HOLD unto the said Transferee *Horace Smith* subject to the several conditions on which *I* hold the same; and *I* the said Transferee , do hereby agree to take the said *shares* subject to the conditions aforesaid.

As WITNESS our Hands and Seals, the *7th* day of *March* *One thousand nine hundred and* ________.

Signed, sealed and delivered by the above-named *John Brown*
in the Presence of

* Witness's
Signature *Wm. Jones*
Address *17 East Street, E.C. 2*
Occupation *Clerk*

Signed, sealed and delivered by the above-named *Horace Smith*
in the Presence of

* Witness's
Signature *P. Martin*
Address *11 The Hoe, Plymouth*
Occupation *Master Mariner*

NOTE.—The Consideration-money set forth in a transfer may differ from that which the first Seller will receive, owing to sub-sales by the original Buyer; the Stamp Act requires that in such cases the Consideration-money paid by the Sub-purchaser shall be the one inserted in the Deed, as regulating the *ad valorem* Duty; the following is the clause in question:—

"Where a Person, having contracted for the purchase of any Property, but not having obtained a Conveyance thereof, contracts to sell the same to any other Person, and the property is, in consequence, conveyed immediately to the Sub-purchaser, the Conveyance is to be charged with *ad valorem* Duty in respect of the Consideration moving from the Sub-purchaser."
(Stamp Act, 1891, Section 58 (4).)

these circumstances the certification of the secretary overcomes the difficulty.

Distinguishing Numbers of Shares.

Section 62 of the *Companies Act*, 1929, provides that—"each share in a company having a share capital shall be distinguished by its appropriate number." Some companies have gone so far as to convert their shares into stock to avoid retaining the distinguishing numbers, but this can be done only when the shares are fully paid.

By many it is claimed that this provision should be abolished, as it causes unnecessary trouble and expense. It is argued against this requirement that the compulsory use of distinctive numbers necessitates an enormous amount of clerical work, since, each time shares are transferred, the distinctive numbers have to be written on the transfer and transfer receipt, on the new certificate and counterfoil, and in the register of members. Further, it is contended that, although distinctive numbers may be of assistance in confirming fraud once it has been discovered, they are in no sense preventive of fraud. It is pointed out, too, that stock dealt in on the Exchange does not bear distinctive numbers, so the same facility might just as well be extended to shares. In answer to the claim that distinctive numbers are useful in distinguishing shares of the same class which are not identical in every respect, it is said that this case could be met by the use of letters on the certificates.

Against abolition of the distinctive numbers it is urged that the extra work involved is overstated. The necessity for specifying distinctive numbers acts as a deterrent to potential forgers, whilst the existence of distinctive numbers facilitates the detection of fraud by narrowing down the sources of investigation to the transfers and certificates bearing the duplicated numbers. Similarly, the prevention and detection of mistakes is facilitated by the existence of a valuable check on the number of shares recorded. With regard to stock, this is generally issued by large companies with elaborate control, a registrar's department, and share transfer audits, so that the need of strict regulation is not as imperative as in the case of shares.

Speculation on the Stock Exchange.

Transactions on the Stock Exchange are not confined to purchases and sales of securities for investment purposes. Many deals are purely speculative in character, the dealers having no intention of taking or making delivery.

BULLS are speculators who buy stock in the hope of a rise. For example, Brown, a bull in Rails, may buy G. Western Ordinary stock at 86 because he expects a rise in its price.

The contract is duly made, but no money passes till settlement day. If in the meantime G. Western Ordinary rises to 88, Brown can either take up his shares by paying for them with a view to holding them for a further rise, or he can sell out and take his profit.

To hold shares and continue buying them to force up the price requires considerable capital, and often a *Syndicate* is formed whose members subscribe huge sums in order to *corner* a market. When they have succeeded in forcing up prices to a profitable level (*i.e.*, when they have successfully "*rigged*" the market in the shares they are "bulling") the speculators sell cautiously to the public at the enhanced price. Occasionally one "bull" syndicate (or even one man) may find himself in a financial battle with another syndicate, which is *selling* the same stock to hammer down the price.

BEARS are speculators who sell stock in the hope of a fall in price. If the fall takes place, they can then buy in more cheaply than they sold and thus make a profit on the combined deals.

Naturally, both bull and bear are sometimes wrong in their forecasts and they find that prices move against them, *i.e.*, they go down for the bull or up for the bear. In such a case they may find it necessary to "carry over" their bargains till next settlement day.

When a bull carries over, he gets the jobber from whom he bought the stock to hold it till next settlement day. Suppose he bought a certain stock for £100, and, instead of rising, it falls to £98; he will then have to pay the jobber the difference of £2 between the purchase price and the making-up price, plus or minus any contango or backwardation.

A similar thing happens when a bear carries over, but the procedure is, of course, in the opposite direction.

As far as possible the operations of bulls and bears who are carrying over transactions in any single security are set off against one another, but where there is a preponderance of bulls (*i.e.*, a "bull account") it will be necessary for someone to provide the funds to take up the balance; and where there is a preponderance of bears (*i.e.*, a "bear account"), an independent source must be resorted to in order to provide the balance of securities which have been sold and are not forthcoming. It is only in this latter case that brokers will require the bears to pay "backwardation," for in the former circumstances the bear will be performing, in effect, a service for the bulls and may receive part of the "contango" paid by the bulls. Needless to say, the brokers do not pass on the whole of the fees paid in this way; they retain a small margin for their services.

OPTION DEALING is another form of Stock Exchange speculation. Options are arrangements made to buy or to sell a definite amount of a certain type of security at a fixed price

during a *specified period without any obligation to accept or make delivery.* An arrangement to *buy* is known as a *call option*, and is settled by the payment of the "difference" *by* the speculator if prices should fall, and payment of the difference *to* him if prices should rise. A *put option* is an arrangement to *sell*, and results in a profit to the speculator if prices fall and a loss if they rise.

Under a "*put and call*" or "*double*" option the person who buys the option is given the right either to buy or to sell at the price named. The double option is of a gambling nature, since the seller is, in effect, simply making a bet that over a stated period the price of the security will remain stationary, or (according to the price charged for the option) that it will fluctuate only within narrow limits. It is only on rare occasions that such contracts can be used in legitimate business, and gambling contracts are forbidden by the rules of most exchanges.

A STAG is a speculator who subscribes to a new issue with no intention of retaining any shares or stock allotted to him, but in the hope that it will at once rise to a premium so that he can sell out at a profit before he has to pay up the remaining instalments.

The Economic Function of the Stock Exchange.

The Stock Exchange fulfils an essential economic function in providing a market for *invested* capital, as distinct from *new* capital. It enables international dealings in securities to be made, and renders securities acceptable as cover for loans. These facilities encourage saving, investment and the flow of *new* capital into production. The Stock Exchange is indispensable to the joint-stock system of enterprise, for investors would not be anxious to take up shares if realisation were a matter of great difficulty.

By providing a free market in stocks and shares, the Stock Exchange facilitates their purchase and sale at *true values*. A security is said to be quoted at its true value when it stands at a price which reflects its dividend or interest-earning capacity, after allowing for future prospects. Conditions approximate very closely to those of a perfect market, and the influence of well-informed and skilful operators is constantly at work forcing prices of securities towards their true value according to the most recent information.

QUESTIONS BEARING ON CHAPTER 44

1. State concisely the procedure necessary for a Company to obtain a London Stock Exchange Quotation. Does compliance with the required formalities ensure the granting of a quotation? (*S.A.A., Final.*)

2. State the functions of and differences (if any) between (*a*) an Investment Trust Company, (*b*) a Finance Company, and (*c*) a Holding Company. (*S.A.A., Inter.*)

3. State the classes into which members of the London Stock Exchange are divided, and their respective functions. (*R.S.A., Stage III.*)

4. Members of the Stock Exchange consist of: (*a*) brokers and (*b*) jobbers. Briefly explain the functions performed by these two classes of members. How does a jobber make his profit? Can he buy or sell for the general public, or enter into partnership with a broker? (*C.A., Inter.*)

5. What duties of the Stock Exchange are carried out by the Committee for General Purposes? (*London Chamber of Commerce, Higher Certif.*)

6. (*a*) From what sources is the income of an Investment Trust Company chiefly derived?

(*b*) How does such a concern endeavour to provide for security of capital? (*A.I.C.A., Inter.*)

7. "Stock Exchanges render capital liquid and available."

Explain the meaning of this statement, and describe how the London Stock Exchange helps in the provision of capital for trade and industry. (*R.S.A., Stage III.*)

8. In connection with the Stock Exchange, explain the following terms:—

Double Option.
Supplementary List.
Backwardation.
Street Market.
Ex all.

(*C.A., Inter.*)

9. What factors make for strength in the Gilt-Edged Market? (*C.I.I. Fellowship.*)

10. What are the functions of an Issuing House? (*C.I.I. Fellowship.*)

11. Explain fully what is meant by "Contango" in regard to Stock Exchange transactions. (*C.A., Inter.*)

12. What special advantages are ascribed to the separation of the functions of broker and jobber on the London Stock Exchange? Describe these functions in detail. (*R.S.A., Stage III.*)

13. A.B., on 7th September 1926, bought, through his stockbroker, 100 shares in the X.Y.Z. Mining Company Limited, at £4 each; the commission charged being 9*d.* per share. Before settlement day, 16th September, arrived, he instructed his brokers to carry over shares to the following account, *i.e.*, 30th September. The carry-over price was 4¼. On 21st September, he sold the shares at 4½; the commission charged again being 9*d.* per share. Give the contract notes he received. Ignore contract stamps. (*C.A., Inter.*)

14. Explain the difference between dealing for "cash" and dealing for the "account" on the London Stock Exchange. What is the position in the case of a cash transaction when, for any reason, it cannot be completed at the proper time? (*R.S.A., Stage III.*)

15. Briefly describe the manner in which a purchase of shares is entered into and carried through on the London Stock Exchange. (*A.I.C.A., Inter.*)

16. Stock Exchange Investments are referred to as being—

(*a*) "Inscribed,"
(*b*) "Registered" or
(*c*) "Bearer."

Describe the form, advantages and/or disadvantages of these classes of securities. (*C.A., Inter.*)

17. In connection with the London Stock Exchange, what are the meanings of the following terms :—

Contract Note.
Account Day.
Contango.
Bulls.
Bears.
(*C.I.I. Fellowship.*)

18. Describe option dealings on the Stock Exchange. Write fully. (*London Chamber of Commerce, Higher Certif.*)

19. Explain the term "London Parity," and show the London Parity price of American shares quoted at 80 with the exchange at 4·82. (*C.A., Inter.* (*Irish*).)

20. Describe the making and completion of a bargain on the London Stock Exchange, including a carry-over from one account to the next. (*R.S.A., Stage III.*)

21. Explain briefly the organisation of the London Stock Exchange and give a classification of the securities in which it principally deals. (*R.S.A., Stage III.*)

22. Enumerate the various kinds of securities dealt with on the Stock Exchange. How is a transfer of inscribed stock effected? How is a purchaser of inscribed stock able to verify his holding? (*S.A.A., Final.*)

23. Explain the procedure when a holder of registered securities transfers (*a*) the whole, (*b*) part only, of his holding. (*London Chamber of Commerce Certif.*)

CHAPTER 45

BANKS AND THE FINANCE OF TRADE AND INDUSTRY

From their original functions of safeguarding the money and valuables of merchants, banks have come to perform a vast number of other services to assist the financing of business transactions. In general, the services of banks in this direction may be separated into two broad categories :—

(*a*) The provision of machinery for the making of payments.
(*b*) The provision of credit to traders and others.

BANKS AND THE SETTLEMENT OF INDEBTEDNESS

As has been indicated in the description of the work performed by the Clearing Houses, the cheque system enables debts throughout the country to be set off one against the other without any large transfers of actual money from place to place. A similar system prevails for the settlement of international indebtedness.

It has already been pointed out that debts between traders may be settled either by the creditor drawing a bill on his debtor and selling it, or by the debtor sending his creditor a remittance. Where the first method is adopted, it is necessary for the creditor to utilise the services provided by the banks to enable him to obtain payment of the bill. His banker will assist him in this matter either by discounting or by collecting the bills drawn by him on his debtors. Similarly, where the second method is adopted, the debtor will either draw cheques on his bank or buy remittances from his bank.

Discounting of Bills.

Banks are at all times willing to discount bills payable at a future date, provided that they are satisfied as to the standing of the parties to each bill.

The procedure of discounting bills thus provides a means for reconciling the claims of debtors and creditors. The debtor may obtain credit by accepting a bill payable in, perhaps, three months' time instead of having to pay at once for goods he has bought ; at the same time the creditor can discount the bill at once and so obtain immediate payment for goods he has sold

The terms "negotiating" and "discounting" a bill are usually interchangeable, but the former term is used especially

in connection with foreign bills and also to refer to the purchase by a bank of sight drafts, etc., in foreign currency where the term " discount " would not be applicable.

Collection of Bills.

Where the standing of the parties is not sufficiently good to allow a bill to be discounted, or where the drawer is unwilling to bear the cost of discounting it, the usual procedure is to hand the bill to a banker for collection. When this is done, the banker forwards the bill to his agent in the place where the drawee resides, and requests him to present the bill for acceptance and payment. When the bill is paid, the agent credits the banker's account in his own books, and the collecting banker, on receipt of advice of payment, pays over the amount of the bill, less a small commission, to his customer the drawer.

Sales of Foreign Remittances by Bankers.

By collecting for its customers bills payable abroad, and also by collecting on its own account foreign bills that it has negotiated, a bank's balances in foreign centres are increased while its funds at home are depleted. The bank adjusts this position and at the same time realises a profit by the sale of various forms of remittance (described in Chapter 37) to debtors who have to remit to their creditors in other countries.

THE PROVISION OF CREDIT

In the modern commercial machine only a very small proportion of daily transactions are carried through on a cash basis. The great majority are conducted on credit—the belief by one man in the probity and solvency of another—and it is one of the most important functions of the banks to act as intermediaries to encourage the giving and taking of credit so that commercial transactions may proceed with as little delay and uncertainty as possible.

The type of credit required by a business concern at various times may belong to one of three classes :—

Short-Term Credit.—This is required for temporary use, to finance the purchase of stock, to finance sales at the height of the season, or to pay for capital improvements whilst a long-term loan is being arranged and obtained.

Intermediate Credit.—This is credit advanced (*a*) for periods ranging from one or two up to five years, and is required in the case of hire purchase sales, where the ownership of goods is retained by the seller until payment is completed ; (*b*) for advances against deferred payment, in which the ownership of goods passes to the buyer and payment is spread over a period ; and (*c*) for long-term credit contracts, such as road building and harbour construction.

LONG-TERM CREDIT for the provision of permanent capital in the form of buildings, plant and machinery.

In this country, at the present time, long-term capital is usually obtained by issues on the London Capital Market in the manner already described in Chapter 44. Intermediate credit for hire purchase sales and deferred payment sales is provided by specialist organisations such as the United Dominions Trust, but, in spite of the excellence of the facilities which are available, there is evidence, according to the Macmillan Report, 1931, that traders do not take as much advantage of them as they might.

Some intermediate credit, and also the great bulk of short-term credit, is provided by the joint-stock banks, and this may be done (*a*) by the actual granting of advances, or (*b*) by the issue of letters of credit.

Types of Bank Loans.

Before making a loan a banker requires to be satisfied on the following points:—

(1) The purpose of the loan must be satisfactory (*i.e.*, not speculative and preferably productive).
(2) There must be a definite arrangement for repayment, and the borrower must show from what source he intends to obtain the necessary funds.
(3) The borrower's financial position, as shown by his balance-sheet, or other financial statement, profit and loss account, etc., must be satisfactory.

Banks advance money to customers in the form either of a fluctuating overdraft on current account or of a fixed advance on loan account, or by discounting bills of exchange or promissory notes.

OVERDRAFT.—By this method the customer is authorised to draw cheques on his current account up to a fixed limit, and interest is charged only on the daily balance. The customer obtains the advantage of reducing his debt, if only temporarily, whenever he has funds in his hands which can be paid in, but the rate of interest charged is usually higher than that charged on a fixed loan, while a commission on the turnover is often exacted which adds considerably to the cost of the borrowing.

LOAN ACCOUNT.—By this method a definite sum is advanced by debiting the advance to a "Loan Account" and crediting the customer's current account. Interest is charged at a slightly lower rate than that charged on a fluctuating overdraft, and it is a matter of agreement as to whether or not commission is charged on the current account turnover. This method of borrowing is especially useful where the applicant's borrowing powers are limited, as in the case of building societies and some registered companies.

From many aspects, borrowing on overdraft from a bank offers an ideal form of temporary accommodation to a trader If an advance in any other form is taken. the trader will usually have to maintain the loan until the whole amount is repaid, pending which he will have to pay interest on the full amount. In the case of an overdraft, on the other hand, he pays interest daily only to the extent to which he has actually utilised the agreed loan, while any remittances he receives in the course of his business will automatically reduce his indebtedness. In many cases, advances are required by traders to finance the sale of goods on credit; and in such circumstances an overdraft is especially useful, for the advance can be repaid piecemeal as payment for the goods is received.

From the banker's point of view. the discounting of bills affords a highly satisfactory method of financing trade. An advance granted by the discounting of a bill of exchange is automatically repaid at the maturity of the bill; while the banker has a right of recourse against both the drawer and the acceptor, instead of merely against his customer as in the case of an overdraft. Moreover, the period which a bill has to run before payment is fixed by the bill itself, whereas advances in the form of loans or overdrafts have a tendency to remain outstanding for a longer period than was originally intended.

SECURITIES FOR ADVANCES

A banker will seldom grant a customer an advance except against the deposit of security of stable value, and with a good margin to allow for contingencies. Since the security is required by the banker to safeguard himself against the loss of his money, and to ensure prompt repayment of his advances, the security must be such that he can rely upon realising it without difficulty or loss. The essentials of a good banking security are, therefore :—

(1) It must be readily valued and easily realised.
(2) Its value must be stable.
(3) The banker's title must be easily established and free from risks of dispute.
(4) There must be no liability attaching to the security.
(5) The security must not entail heavy expense or onerous formalities.
(6) The estimated realisable value should yield an ample margin over the amount of the advance.

The following are the principal types of security taken for this purpose :—

STOCKS AND SHARES.—These are regarded as the most attractive form of security by bankers, as they can be made available as cover without great expense, and are readily

realisable in case of need. At the same time the banker regards every security on its merits; and the customer will find it much easier to obtain an advance against gilt-edged securities or first-class debentures than against, say, mining shares. In no case will the banker grant an advance to a greater extent than about 80 per cent. of the current value of the securities; and, in the case of shares of relatively less stable value, he will insist on a wider margin. *Bearer securities* afford, perhaps, the ideal form of cover from the point of view of both banker and customer, since they can be made available as security by mere deposit with the banker. *Registered securities*, on the other hand, can be made effective as security only by transfer and registration in the names of the bank's nominees.

GUARANTEES.—If the customer is not prepared to deposit any other form of security acceptable to the banker, an advance may be arranged against the security of a guarantee given by a third person of adequate standing. Such a guarantee must be in writing, signed by the guarantor, and must embody an undertaking by the guarantor to be responsible to the banker should the customer (the principal debtor) default. Guarantees are commonly taken to secure advances made to infants or to other persons of limited contractual capacity, while in some cases a banker will ask for a guarantee on the part of the directors before advancing money to a limited company, the object being to secure the unlimited liability of the directors. The value of a guarantee as security is, of course, dependent entirely upon the financial worth of the guarantor.

LAND is an excellent form of banking security, but bankers usually grant advances against mortgages for short periods only: where a long-term advance is required the matter is best arranged through a solicitor or building society. Where the advance is required for a very short period only, it may be sufficient for the customer merely to deposit the title-deeds to the property with the banker, together with a *Memorandum of Deposit* stating the purpose for which they are deposited. This procedure gives the banker merely an *equitable mortgage* over the property; and, although the customer is prevented from dealing further with the property without the knowledge of the banker, the latter acquires no right to realise the property except with the permission of the Court. When, however, the banker decides to grant a loan against the security of land or buildings he will usually prefer to take a *legal* mortgage, by which he obtains the legal ownership of the property and so is fully protected.

DOCUMENTS OF TITLE TO GOODS are frequently taken as security in respect of a loan. They are not, however, the best type of cover, as the value of most goods is subject to wide fluctuations, while there is much scope for misstatements as to that value in the documents. Where documents of title are

accepted as security, the customer will hand them to the banker together with a *Letter of Hypothecation* acknowledging the banker's property in the goods and his right to dispose of them upon default in repayment of the money lent.

Life Policies.—Although these are most useful as collateral security to avoid realisation of other securities in the event of the death of the borrower, they are not infrequently accepted as primary security for an advance. In either case, however, a banker will invariably protect himself by taking a *legal assignment* of the policy, while he will not in any case allow the advance to exceed the current surrender value of the policy as ascertained at frequent intervals from the company.

Apart from the types of security described above, advances to joint-stock companies are commonly secured by debentures conveying a fixed and/or floating charge over some or all of the company's assets (see Chapter 9).

Collateral Security.

All the above types of security are frequently spoken of as "*collateral*" security, since they afford the banker a right of action collateral to, or running side by side with, the banker's right of action against the customers *personally* in respect of any loan or overdraft. There are, however, two other senses in which the term is commonly used :—

(*a*) To describe any of two or more instruments which *secure the same debt*, as, for example, where a loan is covered by the pledge of share certificates and also by the assignment of a life policy.

(*b*) To describe security which is given *by a third person or persons* to ensure a customer's repayment of a loan, *e.g.*, a guarantee signed by *A* as guarantor of an overdraft granted by a bank to its customer *B*.

THE LENDING POLICY OF OUR BANKS

Apart from the important question of adequate and easily realisable security, the chief point that a banker in this country has to bear in mind when considering an application for an advance is the question of *liquidity*. British banks supply only *short-term* capital, and will not entertain any application for an advance likely to become "*frozen*," *i.e.*, which is required for long-period capital works such as the provision of buildings or the purchase of land. The main reason for this, of course, is that the bulk of the disposable funds of British banks is obtained from the deposits of their customers, and, as these deposits are liable to be withdrawn at short notice by cheque or otherwise, the assets held by the banks against them must be easily realisable and not tied up for long periods. Accordingly, before granting any advance, a banker will require to be satisfied that

the customer proposes to use the money as liquid capital in his business, and that the loan is likely to be steadily reduced and repaid within a comparatively short period.

As a result of the banks' policy in this respect, British traders and industrialists cannot rely upon the banks to supply them with permanent capital. In an endeavour to meet requirements for permanent capital, the banks, led by the Bank of England, took two important steps in 1929 and 1930.

THE SECURITIES MANAGEMENT TRUST.—The first of these was the establishment of the Securities Management Trust, in November 1929, under the control of the Bank of England, as a medium for investigating and advising on financial, industrial and economic questions, and for encouraging the formation and exploitation of schemes for the rationalisation of industrial concerns. The Trust has taken a leading part in the reorganisation of British industry, and amongst the important schemes with which it has been actively associated were the formation of the Lancashire Cotton Corporation, and the reconstruction of Richard Thomas and Co., at Ebbw Vale in 1938.

THE BANKERS' INDUSTRIAL DEVELOPMENT COMPANY.—The next step was the registration, in April 1930, of the Bankers' Industrial Development Company, with a nominal capital of £6,000,000. Its object is to examine schemes for the rationalisation of industries or of regional groups, and to assist them in obtaining the necessary financial support from the banks and other City interests.

The Macmillan Committee on Finance and Industry.

The complaints of industrialists that their requirements were not being adequately met led the Government to set up in November 1929 a Committee of economists and business men under the Chairmanship of Lord Macmillan, "to enquire into banking, finance and credit, . . . and to make recommendations calculated to enable these agencies to promote the development of trade and commerce and the employment of labour."

After exhaustively reviewing the position, the Committee found that although British manufacturers and traders have always been able to find cheap accommodation, yet, largely for historical reasons, the relations between British banks and industry have never been as close as those between banks and industry in the United States and on the Continent. The painful experience of the banks in these countries in the depression preceding the war of 1939 exposed serious weaknesses in the system of industrial banking, and in most countries there was a movement to segregate the functions of deposit banking and industrial finance, as in this country.

Although recognising that the joint-stock banks could not be blamed for the inadequacy of the facilities available for the long-term finance of industry, the Macmillan Committee em-

phasised the need for much closer association, through appropriate organisations, of the financial and industrial worlds. The Committee doubted whether the banks could with advantage depart from their traditional sphere of deposit banking, and recommended that specialised institutions should be set up to act as intermediaries between finance and industry, and, in particular, to perform the following functions :—

(*a*) To act as financial advisers to existing companies, particularly in regard to the provision of permanent capital ;

(*b*) To secure the underwriting and issuing of companies' securities to the public and, if necessary, to assist previously in arranging for temporary finance in anticipation of an issue ;

(*c*) To assist in financing long-term contracts at home and abroad, or new developments of an existing company, or founding companies for new enterprises ;

(*d*) To act as intermediaries and financial advisers in the case of mergers or in the case of negotiations with corresponding international groups ;

(*e*) To be free to carry out all types of financing business.

Such institutions should be independent institutions, though their capital could be subscribed by the leading private institutions and the big banks. They would, of course, require a large capital to enable them to finance long-term credit contracts extending to four and five years, and the Committee expressed the view that the Bankers' Industrial Development Company might form the nucleus of a new organisation on the lines suggested, though it should become self-supporting and independent of the Bank of England, so that it could be in a position to give more direct help to industry and be free of any possibility of bias.

The foregoing suggestions were intended mainly to apply to the finance of large-scale organisations, and the Committee recognised that, to provide financial facilities for the small and medium-sized concerns, it might be desirable to form yet another type of financial institution which would confine itself to smaller industrial and commercial issues of long-term capital.

Nothing has as yet been done to implement the chief recommendations of the Committee. But the formation of Credit for Industry Ltd., in 1934, as a subsidiary of the United Dominions Trust, has provided small and medium-sized concerns with a source of capital. The new company is willing to grant advances up to 15 or 20 years to those concerns whose capital requirements are too small to justify a public issue, but it will not make advances unless the business is quite sound.

Apart from this Government sponsored company, several new institutions have been formed to provide industrial finance, some by taking up shares or debentures, others by lending money on mortgage. The facilities now available to would-be borrowers have thus been considerably improved.

The Agricultural Credits Act, 1928.

In addition to the foregoing steps taken to assist industry generally, it was found in the years following the Great War that agriculture in this country was faced with serious difficulties and that special facilities were necessary if the industry was to be placed on a reasonably good footing.

After consultation with the banks and other interests, the *Agricultural Credits Act*, 1928, was passed, which in two separate parts dealt respectively with the provision of short-term and of long-term credit.

SHORT-TERM CREDIT.—The Act provided for the creation of a new form of charge, known as an "*Agricultural Charge*," which could be given in favour of a bank in the form of a floating charge over the agricultural assets owned by a farmer. A statutory obligation is imposed on any farmer giving an agricultural charge to account to the bank for the sale of any assets charged or for any insurance money received in respect of such assets. A special register was opened at the Land Registry to record these charges.

LONG-TERM CREDIT.—A new company, known as *The Agricultural Mortgage Corporation Ltd.*, was set up for the provision of long-term credit to farmers. The capital was subscribed by a number of the large banks, and loans are granted by the Corporation (*a*) against mortgages of agricultural land; and (*b*) in respect of major improvements to agricultural land and buildings.

Borrowers from the Corporation are required to meet fixed interest and capital repayments at half-yearly intervals, so that the scheme applies to the acquisition of land the same principles as building societies have so successfully applied to the acquisition of homes.

LETTERS OF CREDIT

The object of a letter of credit is to substitute the credit of a well-known bank for that of a comparatively unknown trader, and so to make trade possible where otherwise it would have been impossible. Generally, a letter of credit consists of an undertaking by a banker that bills drawn on the banker in compliance with the terms of the credit will be duly honoured.

One of the most commonly used forms of credit is one which is opened at the request of an importer by a banker either in the importer's country or in the exporter's country, and under which the issuing banker undertakes that bills drawn by the exporter will be duly honoured provided they comply with the terms of the credit. The exporter is thus able, on the strength of the issuing bank's undertaking, to negotiate bills drawn under the credit with the greatest ease and at a "fine" rate of discount.

Confirmed Credits.

A CONFIRMED (OR IRREVOCABLE) CREDIT is one in which the issuing banker gives a definite undertaking to accept and, in due course, to pay bills drawn upon him in compliance with the terms of the credit. This is the definition usually accepted, but in some quarters a credit is not regarded as *confirmed* unless the banker through whom the credit is advised to the beneficiary adds his confirmation to that of the issuing banker.

UNCONFIRMED CREDITS.—In an Unconfirmed (or *Revocable*) Credit, the issuing banker gives no such undertaking, but merely intimates that he is prepared to honour drafts drawn under the credit unless, in the meantime, the credit is cancelled. The value of an unconfirmed credit is considerably enhanced if, as is often the case, the issuing banker *undertakes* to honour drafts negotiated prior to the receipt by the negotiating banker of notice of cancellation.

ACCEPTANCE CREDITS.—Strictly, this term refers merely to a credit which provides for bills to be drawn requiring acceptances, as distinct from SIGHT CREDITS, which call for the drawing of sight drafts. The term is, however, more usually applied to credits which provide for bills to be accepted *by a bank*, as distinct from credits such as AUTHORITIES TO NEGOTIATE (see below) which provide for bills to be drawn direct on the importer. In this sense the term is usually qualified by the name of the town in which the bills are to be accepted, *e.g.*, Paris Acceptance Credit, New York Acceptance Credit. The term "London Acceptance Credit" is often used in a special sense to refer to a credit opened with a London bank at the request of an English *exporter*. This arrangement enables an exporter, merely by drawing on his own bank, to obtain, in payment for goods exported, a London bank bill discountable at very fine rates, instead of a foreign trade bill discountable at high rates or possibly not discountable at all.

DOCUMENTARY CREDITS.—A documentary credit is one that provides for bills to be accompanied by specified shipping documents, as distinct from a *Clean Credit*, where no documents need accompany the bills.

OMNIBUS CREDITS are those granted to shippers of high standing to enable them to draw round amounts on a bank against the security of a general lien on their goods.

FIXED CREDITS are those available for a fixed total amount, either in one draft or in several.

REVOLVING CREDITS are those which are automatically renewed from time to time as certain conditions are fulfilled. They are of four types: (*a*) For a fixed amount in one draft at any one time, the credit being immediately reavailable; (*b*) for a fixed amount in one draft at any one time, the credit not being reavailable until advice has been received of payment of

the previous draft; (*c*) for an unlimited amount in all, but with a limit to the total of drafts outstanding at any time; (*d*) for a limited amount during a specified period.

AUTHORITIES TO NEGOTIATE.—A further type of credit used mainly to finance trade with the Far East is that known as the *authority to negotiate* or *negotiation credit.* This consists of a mere request by a banker in the importer's country to its agent or correspondent in the exporter's country to negotiate bills drawn *by the exporter* on the importer up to a specified limit during a given period. Although the issuing bank gives no definite undertaking, it is understood to guarantee that drafts negotiated prior to receipt of cancellation will be duly honoured on presentment.

The descriptions given above are merely characteristics of various types of credit and are not in themselves complete and distinct forms. For example, a Traveller's Letter of Credit (see next page) has the characteristics of being confirmed, fixed and clean, while many confirmed credits are also documentary and fixed credits.

The Use of Letters of Credit in Foreign Trade.

The following typical example will serve to illustrate the manner in which foreign trade may be financed by the issue of letters of credit.

It may be assumed that an exporter in the United States has arranged to ship goods to an importer in Czecho-Slovakia, and, not being satisfied as to the standing of the importer, has requested that payment be made by sterling drafts at sixty days' sight on a London bank. In such circumstances the Czecho-Slovakian importer will instruct his own bankers in, perhaps, Prague, to open a confirmed documentary credit with their London agents in favour of the American exporter. The instructions to the London bank will specify the amount of the credit, the period for which it is to remain open, the documents that must be attached to each bill, and other details, and will contain an authority to the London bank to debit all drafts accepted by it to the account of the Czecho-Slovakian bank. Upon opening the credit, the London bank will advise the exporter's bankers of the terms under which it is prepared to accept drafts; and on the strength of this undertaking the exporter will readily be able to discount any drafts drawn by him in respect of the shipments of goods, even before the drafts are accepted.

It will thus be seen that a letter of credit, by enabling the exporter to draw on a bank of international repute, instead of on a comparatively unknown importer, enables him to turn his bill into cash at a satisfactory rate of discount as soon as the goods are shipped; while, on the other hand, the importer is enabled to purchase goods from an exporter who might otherwise require

payment at the time the order was given. The Letter of Credit bridges the "credit gulf" between two people who would otherwise have no means of ensuring that the other would carry out the engagements entered into, while at the same time it gives rise to a bill of exchange bearing the signature of a well-known bank. Such a bill takes its place alongside many thousands of others to form a unit of international currency whereby the transfer of goods from one country to another is financed and made possible.

Trust Receipts.

An importer who finances his shipments through a credit opened at his bank is often desirous of obtaining possession of the documents of title to the goods before he has actually paid the amount due to the bank. The same position may arise where an importer has obtained an advance from his banker against the pledge of the documents. In either case the importer is unable to deal with the goods without the documents, but, on the other hand, the banker loses his security if he releases the documents. A compromise is therefore reached whereby the banker releases the documents on the importer's signing a *Trust Letter*, or *Trust Receipt*.

The essential features of a Trust Receipt are that it embodies

(1) *An acknowledgment* by the customer of the receipt of the documents and an undertaking by him to hold the goods in trust on the bank's behalf.

(2) *An undertaking* by the customer:
- (*a*) to hold the proceeds in trust for the bank, and to deliver them to the bank to be used in settlement of the indebtedness;
- (*b*) to keep the goods adequately stored, at his own expense;
- (*c*) to keep them separate from other goods so that they cannot be merged with other stock, thus prejudicing the bank's security;
- (*d*) to insure the goods against all risks, and to deliver the policy to the bank.

(3) *An agreement* by the customer that the bank shall be entitled at any time to resume possession of the goods and rescind the receipt, and that no breach of any of the provisions is to constitute waiver by the bank of any of its rights under the document.

Non-Commercial Credits.

The various credits described above are what are known as *commercial* credits, since their object is to assist international trade. There are other types of credit, the object of which is to enable travellers in foreign countries to avoid the risk of carrying large sums of money about with them.

TRAVELLERS' LETTERS OF CREDIT.—A Traveller's Letter of Credit consists of a request by the issuing bank to its agents and correspondents abroad to cash on demand any drafts drawn

by the holder on the issuing bank up to a stipulated amount during a specified period. Travellers' L/C's take three forms:—

(a) *Circular* or *World-Wide Letters of Credit*, which are available with *any* of the bank's agents and correspondents.

(b) *Limited Letters of Credit*, which are addressed only to certain of the bank's agents and correspondents.

(c) *Travellers' Commercial Letters of Credit*, which are issued to enable the holder to purchase goods at various points. As a rule, drafts drawn under this type of credit must be accompanied by specified shipping documents.

In order that the agents and correspondents of the issuing bank may be able to identify the traveller, he is furnished with a *Letter of Indication*, containing his specimen signature, which he must produce when he desires to cash a draft.

TRAVELLERS' CHEQUES.—These are drafts drawn by the holder on the issuing bank for round sums in sterling, and encashable by the bank's agents and correspondents abroad at the current rate of exchange. The holder signs the cheques in the presence of the issuing bank, and is required to indorse them when they are cashed. The cashing banker is thus enabled to compare the two signatures.

CIRCULAR NOTES.—These documents are similar to travellers' cheques, but bear on the front a request to the bank's agents and correspondents to hand the holder cash for the stipulated amount. On the back is a form of cheque to be drawn by the holder on the issuing bank.

CIRCULAR CHEQUES.—These are issued by banks to their agents and correspondents abroad, for sale by the latter to customers visiting the country of the issuing bank. They resemble cheques in form, and are drawn on the issuing bank by its correspondents, who, when selling these cheques, fill them in for the amount required by the customer.

QUESTIONS BEARING ON CHAPTER 45

1. Describe the method of financing exports by means of bank acceptances. Take as an example an export of hardware goods by a London merchant to a dealer in Buenos Ayres, and briefly describe the contents of the documents specially involved in the financing of the transaction by means of a bank acceptance. (*R.S.A., Stage III.*)

2. If a Banker intimated to a Company that he required security for its overdraft, by what various methods could the company give security? (*C.A., Inter.*)

3. Explain the principal objects of the Agricultural Mortgage Corporation Limited, which was formed under the provisions of the Agricultural Credits Act, 1928. (*S.A.A., Final.*)

4. What do you understand by—
   (*a*) A Letter of Credit?
   (*b*) A Circular Note?

Explain the method of procedure in each case. (*S.A.A., Final.*)

5. What is meant by "Collateral Security"? (*C.A., Inter.*)

6. What arrangements could be made with a British bank for the financing of an importation of manufactured goods from France? (*R.S.A., Stage III.*)

7. State shortly how commerce is helped by banking. (*R.S.A., Stage I.*)

8. Discuss the merits of overdrafts from (*a*) the customer's point of view, (*b*) the banker's point of view, as a means of affording temporary accommodation for a trader. (*R.S.A., Stage II.*)

9. A client, a sole trader, desires to borrow £5000 additional working capital on loan to meet coming orders. Comment hereon as to possible ways and means of carrying out this proposal, giving security, etc. (*I.C.P.A., Inter.*)

10. Detail the services which Banks are ready to perform for customers. (*R.S.A., Stage III.*)

11. (i) What is a Banker's relationship with his customer?
    (ii) What do you understand by a Garnishee order?
    (iii) Mention some forms of Security usually accepted by Bankers as cover against loans and overdrafts on the part of their customers. (*S.A.A., Inter.*)

12. On 1st December 1939, Messrs. Jones & Co., of Bradford, despatched goods value £3000 to Messrs. Bolitho & Co., of Cape Town, and drew on them at 3 m/s with documents attached. Draw the draft and name the accompanying documents.

Messrs. Jones discounted the draft which was marked D/A. State how the draft reached Cape Town and how the goods were obtained by the consignees. (*R.S.A., Stage III.*)

13. A manufacturer, not having sufficient working capital, pays a merchant's account by 3 months' bills, thereby losing a 2½ per cent. Cash Discount. Assuming that the quarterly bills rendered to him are £2000, and that he borrowed £1500 from the Bank at 7 per cent. in order to pay cash instead of accepting bills, what advantage, if any, would accrue to him during a year? (*I.C.P.A., Inter.*)

14. Why do some import firms pay for imported goods in the form of bills on London, while other firms open credits abroad and make payment by means of cheques on foreign banks? (*R.S.A., Stage III.*)

15. What do you regard as the most important of the services rendered by banks to retailers? Give your reasons. (*R.S.A., Stage I.*)

16. Explain the difference between a loan account and an overdraft given by the bank. (*R.S.A., Stage II.*)

17. Write a brief note recounting the functions of a bank, regarded from the point of view of a retail trader. (*R.S.A., Stage I.*)

18. Why do banks show such willingness to discount bills of exchange? Analyse carefully all the elements of security that enter into the acceptability of such bills. (*R.S.A., Stage III.*)

CHAPTER 46

INSURANCE

INSURANCE is the provision which a prudent man makes against fortuitous or inevitable loss or misfortune. It is a commercialised form of spreading risks.

Insurance and Assurance.

Originally the word "insurance" was synonymous with "assurance," but there is a tendency nowadays to draw a fine distinction between the meanings of the two words. "Assurance" is applied to those contracts which guarantee the payment of a sum certain on the happening of a specified event which is bound to happen sooner or later, *e.g.*, death. Most life policies come under this heading. "Insurance," on the other hand, contemplates the granting of certain compensatory payments or benefits on the happening of certain events stipulated in the contract, which events are not expected, but which *may* happen. It is, therefore, a contract of indemnity against a contingency, such as is contained, for example, in a comprehensive motor-car policy granting protection against *probable* accidents and *possible* legal liability arising therefrom.

Whilst this distinction is not definitely authoritative, it has received some measure of statutory recognition in the nomenclature of certain Acts of Parliament, *e.g.*, the *Policies of Assurance Act*, 1867, and the *Marine Insurance Act*, 1906, and in the definitions of various classes of business given in Section 1 of the *Assurance Companies Act*, 1909.

Form and Growth of Insurance Business.

Insurance is a safeguard against many of the risks of loss to which capital is exposed. The persons who assume these risks (the "*Insurers*") do so in consideration of the payment of *premiums*, so that those entering into contracts of insurance (the "*insured*") who suffer damage are compensated from a common insurance fund to which they and others have contributed.

MARINE INSURANCE, which is the oldest form of insurance and has existed in its present form for more than seven hundred years, protects merchants from losses due to sea perils; and the importance of Britain's overseas trade is largely to be

ascribed to the high degree of security given by those specialising in this class of business. Marine insurance has steadily kept pace with the development of overseas trade during the past centuries, and the gradual increase in the volume of this trade has led to a corresponding increase in the importance of marine insurance.

Fire Insurance, which has been described as the "handmaid of commerce," is concerned with the protection of capital. It dates from the eleventh century, when the Anglo-Saxon Gilds were formed to spread the fire losses of individuals over the community as a whole, and has gradually increased in importance. The expansion of industry during the nineteenth century, and the later formation of huge combines with their large factories and warehouses exposed to fire hazard, made organised fire insurance an absolute necessity.

Accident Insurance, which originated in the middle of the nineteenth century (following the introduction of railway travel) but has become important only in the present century, has been dependent to a large extent on the Common Law and on legislation making owners of capital liable to third parties suffering loss in certain circumstances. For example, a person who negligently causes injury to another is liable at Common Law to pay damages to the injured party; and an employer is liable under the *Workmen's Compensation Acts* to pay compensation to employees who are injured by accident arising out of and in the course of their employment. Such liabilities impose on the individuals who are held liable a burden which might be disastrous were it not for the existence of Third Party Insurance and Workmen's Compensation Insurance, by which the necessary protection is afforded.

Life Assurance and Personal Accident Insurance.—Human life may be regarded as a form of capital, for, by the death or disablement of a person, he himself and others dependent on him are deprived of a valuable income-producing asset. As an instance, the death of a married man may result in his wife and children being left without means of support and thus becoming a burden on the State. This, however, may be avoided, or at least to some extent mitigated, by taking advantage of the protection afforded by Life assurance or Personal Accident insurance, the benefits of which are but gradually being realised by the public.

Rating the Risk.

Not only does insurance provide for the actual loss of capital, but it also helps appreciably to reduce the possibility of loss, thereby preserving capital. This is done by penalising those who expose their property to unnecessary risks and encouraging those who take every possible precaution to guard against loss.

For example, in Fire insurance defective construction of buildings is "rated up," *i.e.*, higher premiums are charged, whilst, on the other hand, discounts involving a reduction in premiums are allowed for installations of approved fire extinguishers.

MARINE INSURANCE

In studying marine insurance we are greatly assisted by the fact that the relevant law has been codified by the *Marine Insurance Act*, 1906, but, although the phraseology of this Act is clear and direct, many of its provisions are modified or excluded in practice by the insertion of special clauses in contracts of marine insurance.

Lloyd's.

The objects of Lloyd's—the world's supreme marine insurance organisation—are the transaction of insurance business by the members, the advancement and protection of the members' interests, and the collection and publication of information of use to members. At Lloyd's are kept books which are posted to date with particulars as to sailings, positions, arrivals and casualties of all vessels, a special service of signal stations having been organised all over the world for the communication of relevant information to headquarters. *Lloyd's Agents* are established at almost every port in the world, and their duties include the reporting of casualties by telegraph to Lloyd's and the appointing of surveyors to inspect damage to ships and cargo.

All underwriting business at Lloyd's has to be transacted through the medium of a *broker*, who is the agent of the assured, although his brokerage is deducted from the premium received by the insurer. The Society itself neither issues policies nor assumes any liability thereunder, all business being transacted by the individual members.[1] The general practice is for several members in association, but not in partnership, to carry on their business through an authorised *Underwriting Agent*, who acts for the whole group or syndicate. The actual "underwriting" is done when each underwriter signs his name at the foot of the policy against the amount for which he accepts liability, and each member of the group is liable only for the amount which he has so underwritten. To relieve the individual underwriting members of routine work, bureaux have been established at which the policies on risks subscribed at Lloyd's are presented for execution (signing) and at which claims are made.

[1] The corporate affairs of the Society, as distinguished from the individual underwriting business of the members, are managed by the Committee of Lloyd's which is elected from and by the general body of members.

Marine Insurance Companies.

The association at Lloyd's is purely a group of private individuals, each of whom risks his own personal capital when he underwrites a policy. But in addition to these there are a number of joint-stock undertakings which either specialise in marine insurance, or carry it on in conjunction with other classes of insurance. The first two companies to transact marine insurance were formed in 1720 as the London Assurance Corporation and the Royal Exchange Assurance Corporation respectively.

The marine insurance companies sometimes negotiate for business direct with the public, but the bulk of their operations is conducted through the medium of *Agents* whom they appoint with general or limited powers to bind them on risks, and who are usually provided with a schedule of rates of premiums and limits of sums insured applicable to the different classes of business transacted. The companies also appoint *Claims Settling Agents* at the principal ports.

The marine insurance companies and Lloyd's work together in harmony; in fact, the former subscribe to the latter so that they may benefit from the great intelligence organisation of that institution. Lloyd's underwriters have an advantage over the companies owing to their comparatively small expense ratio (*i.e.*, the ratio which expenses of administration bear to the premiums received over a period), but the companies, having larger funds at their disposal, can undertake much larger "lines" than the individual Lloyd's underwriters, and can offer the security of their capital and accumulated funds for the protection of their policyholders. Moreover, they have greater facilities for effecting reinsurance (which will be considered later in this chapter).

Formation of the Contract.

The method adopted in effecting a contract of marine insurance differs from that employed in the other branches of the business, where, except perhaps in the case of Fire Insurance, a proposal form must be completed. Marine business is often placed through a broker, who, on receipt of instructions from his principal, makes out an abbreviated memorandum of the risk, which is termed an "*Original Slip*" and appears at the top of the next page.

The broker takes the original slip and "offers" it for subscription to an underwriter at Lloyd's or to a "company" underwriter. If the underwriter thinks the risk is acceptable, he quotes a rate per cent., and if this is accepted it is entered on the slip, as shown above. The underwriter then "writes his line," *i.e.*, the amount which he is prepared to underwrite, initials this figure, and dates it. Where large amounts are

T. H. E. Broker & Co.

S.S. Java.

London to Colombo.

125 Bales Soft Goods. Vd : £7250.

W.A. (Inst.) t. & p.

No f.c. & s. 6*s*.

£6000 A.D.F. (Date) ....

£1250 P.D.C. (Date) ....

The meaning of the abbreviations is as follows :—

W.A. . .	=With average.
t. & p. .	=Theft and pilferage.
No f.c. & s. .	=Not warranted free of capture and seizure.
A.D.F. and P.D.C.	=The initials of the two underwriters, with their respective amounts opposite.

concerned, the broker will have to take the slip to several underwriters to secure subscriptions to the full value indicated.

The slip has no legal value, because not only does the *Stamp Act*, 1891, provide that every contract of marine insurance must be embodied in a properly stamped policy, but also the *Marine Insurance Act*, 1906, provides that a contract of marine insurance is inadmissible in evidence unless it is embodied in a policy. Nevertheless, reference may be made to the slip as evidence of the date on which the contract was concluded, provided that a duly stamped policy is also in existence.

Similarly, a broker's "*cover note*," which he forwards to his client on completion of an insurance, whilst of value in evidence for purposes other than that of enforcing the contract (*e.g.*, in an action for negligence against the broker), has no legal value as far as the contract of marine insurance itself is concerned. The cover notes issued by company underwriters in connection with risks placed direct by the assured have the same legal status as original slips—*i.e.*, they are binding in honour only. This latter point is of great importance, however, for if underwriters or insurance companies failed to honour their obligations as evidenced in their "slips" or "cover notes," they would immediately fall into disrepute and their business would be lost.

When the insurance has been effected with a company, on receipt of final instructions from his client the broker makes out a closing slip—known also as a "forward" or "definite" slip. This states at greater length full particulars of the risk as indicated by the original slip, together with the name in which the policy is to be made out. It also incorporates copies of the clauses which are to be embodied in the policy. The policies are prepared by the companies from the particulars given in the closing slip and are then forwarded to the broker

Where insurances are effected with Lloyd's underwriters, however, no closing slips are used; in these cases the broker himself prepares the policy and presents it for execution at Lloyd's Signing Bureau.

Open Covers.

Open covers are contracts binding the underwriter in honour only and not legally, and are effected for a period of time—usually twelve months. Under such agreements the assured undertakes to notify all shipments effected within the terms of the contract during its currency, and the underwriter agrees to accept the risk and to issue policies in respect thereof. A schedule of rates is usually incorporated in such documents, but shipments for which no rate is specified may usually be brought within the contract at rates to be arranged.

Contracts of this nature permit declarations of shipments up to a fixed maximum amount by any one steamer of approved lines, regardless of previous shipments, but are generally subject to thirty days' notice of cancellation given by either side.

Sometimes open cover is arranged for an agreed amount (say, £100,000), which is automatically reduced as shipments are made. Such "covers" are generally designated "Open Slips," and contain no cancellation clauses other than those respecting war and strikes risks.

Full particulars of shipments are often unobtainable unti after the actual risk has expired; it is usual, therefore, to agree on a basis of valuation should goods be lost or arrive prior to declaration of their value.

A "*Permanent Open Cover*" is one having no period specified and open to take declarations of shipments until notice of cancellation, an agreed period of notice being arranged.

The Policy of Marine Insurance (see Chapter 34).

A policy of marine insurance is an essential document in all overseas trading transactions. Briefly, it covers the usual perils of the seas, and also other risks, *e.g.*, fire and theft Losses of which the *proximate* (*i.e.*, dominant or effective) cause is not a peril insured against are not covered, and *some* of the perils which are not covered by the ordinary policy are specially mentioned in the *Marine Insurance Act*, 1906, *e.g.*, ordinary wear and tear, loss proximately caused by rats and vermin, inherent vice or nature of the subject-matter insured.

The *Marine Insurance Act*, 1906, provides that a policy on *ship* or *goods* is free of any claim arising from delay, even if the delay is proximately caused by a peril insured against, but this provision does not extend to freight (which does not include passage money). Therefore, the "Time Penalty Clause" has been introduced to protect underwriters from claims for loss of freight should a vessel, through delay, be unable to arrive

at her destination at the date specified in her charter and thus, by the operation of a cancelling clause, lose her freight. The Time Penalty Clause reads: "Warranted free from any claim consequent on loss of time whether arising from a peril of the sea or otherwise." When a bank advances, under a letter of credit, a proportion (say, 80 per cent.) of the shipping value of the goods consigned by a merchant, it requires the production of a full set of documents of title, and these invariably include the policy of marine insurance.

Marine insurance policies may be *Valued* or *Unvalued*. In the former class—which is the more usual—an agreed valuation is placed on the subject-matter of the insurance and is inserted in the policy. In the absence of fraud, such valuation is conclusive as between insurer and assured. In unvalued policies the value is not stated in the policy, but is ascertained, in the event of a claim, in accordance with the provisions of the *Marine Insurance Act*, 1906.

Types of Marine Insurance Policies.

The principal types of marine insurance policies are as follows:—

1. VOYAGE POLICIES, by which the subject-matter is insured for a specified voyage, *e.g.*, London to Rangoon; Bristol to Kingston.
2. TIME POLICIES, under which the insurance is effected for a specified period of time, not exceeding twelve months, *e.g.*, from noon, 17th July 1931 to noon, 17th July 1932. Policies of this nature are used chiefly in connection with the insurance of ships, though voyage policies are also frequently used for this class of business.
3. CONSTRUCTION or BUILDERS' RISKS POLICIES, which are issued, usually for a period exceeding twelve months, to cover the risk of damage to vessels during the period of construction.
4. PORT RISK POLICIES, which cover a vessel whilst in port for a stated period of time.
5. FLEET POLICIES, by which several vessels belonging to one owner are insured under the same policy.
6. COMPOSITE POLICIES, which are subscribed by more than one insurance company on the one policy. The liability of the various companies, however, is quite distinct.
7. MIXED POLICIES, which cover the risk for both a specified voyage *and* for a period exceeding 30 days.
8. FLOATING, OPEN or DECLARATION POLICIES, which are generally used by merchants or shippers who regularly despatch or receive goods. Thus, an importer of coffee from Java might arrange a "floating" policy against which declarations would be made as advice of shipments was received from the exporter. Similarly, professional exporters specialising in, say, the Eastern market might make declarations in respect of individual shipments against a floating policy. They are also useful for short voyages, where the merchant's goods may be at risk without his knowledge. Such policies are usually taken out for a round amount (say, £20,000), and sometimes the assured benefits because the stamp duty is based on that one amount, which will often be less than the aggregate of stamp duties on separate policies.

Forms known as "declaration" forms are supplied to the assured on which to fill in particulars of each shipment. As declarations are made, the sum insured is reduced by the amount of each shipment. All shipments must, of course, be declared, though *bona fide* omissions do not invalidate the policy. Most "open" policies contain a "sailing warranty" (*e.g.*, "Warranted sailing on or before . . ."), which can be extended from time to time to give the insurers the opportunity, should they desire, of cancelling the policy at the expiry of the warranty. Except in so far as they may be governed by a sailing warranty, open policies are not issued for a period of time: they expire when the sum insured has been exhausted by declaration, unless, of course, the insurers have meanwhile declined to extend the sailing warranty.

In this type of policy it is, of course, necessary to describe the subject-matter in very general terms, and a basis of valuation is usually agreed, thus:

> "Goods and/or Merchandise to be hereafter declared and valued at invoice cost, plus charges of shipping and 10 per cent. added."

Where no basis of valuation is agreed and the subject-matter arrives or is lost before declaration, its value must be ascertained in the manner prescribed by the *Marine Insurance Act*, 1906, no allowance being made for profit; hence a basis of valuation is of great importance to the assured. Even in the absence of such a basis, however, underwriters frequently permit the declaration to be based on the same principle as previous shipments declared off the policy.

Standard rates are fixed for the commodities and for the various voyages which are to be covered, and at the expiration of the policy the original premium is suitably adjusted by an extra or a rebate, as the case may be, in accordance with the terms of the policy.

Certificates of Insurance.

Certificates of insurance giving details of the shipments are issued (usually to the exporter in book form) in connection with declarations under floating policies. When goods are exported, such certificates are frequently included with the shipping documents as evidence of insurance. But insurance certificates have no legal status as they are unstamped, although they can be sued upon in conjunction with the stamped floating policy. Banks are usually prepared to accept certificates as evidence of insurance, provided that the floating policy is available for their inspection. Nevertheless, it has been held that an insurance certificate is not good tender in place of a policy in a C.I.F. contract.

When an insurance certificate which has been issued abroad comes into this country it can be stamped on arrival, if presented to the Inland Revenue Authorities within ten days of receipt in the United Kingdom. The contract is then enforceable at law in this country, provided that the certificate fulfils all other requirements of the *Marine Insurance Act*, 1906.

"Honour" Policies.

The *Marine Insurance Act*, 1906, provides that policies effected by persons who neither possess an *insurable interest*

nor any *bona fide* expectation of acquiring one are void. But policies are daily written to cover nebulous interests, and, being void at law, are treated most scrupulously by insurers. They are, therefore, termed "Honour" policies, or "P.P.I." (policy proof of interest) policies. Such policies are a commercial necessity and are issued in many cases where the assured has a genuine interest of an indefinable character. For instance, they are issued in connection with "increased value" insurances on commodities such as grain, cotton and sugar, which often change hands several times during one voyage. and of which the value fluctuates considerably.

Features of All Policies.

Lloyd's policies are issued on a standard form, *i.e.*, that given in the First Schedule to the *Marine Insurance Act*, 1906, and this may be adapted for marine insurances of any kind—hull, freight and goods. If the terms are not exactly suited to the particular business, new clauses can be written or stamped on the policy, or attached to it by means of gummed slips. Most companies, however, use policies which in form are similar to Lloyd's marine policy, but differ in the wording and in certain other minor respects, especially in the printed marginal clauses.

Although the form of policy varies according to circumstances, the *Marine Insurance Act*, 1906, requires that certain essentials must be embodied in all marine policies. They are:—

1. The name of the assured or his agent;
2. The subject-matter insured and the risk insured against;
3. The voyage and/or period of time covered by the insurance;
4. The sum or sums insured;
5. The name or names of the insurers.

The name of the vessel is not included in these essentials, but in practice it is inserted, and, as many steamers have the same or similar names, it is clearly important that the vessel should be designated in a manner which will enable it to be identified easily. The vessel may not be changed without the consent of the underwriter, but in practice it is usual to add after a steamer's name the phrase "and/or steamers," so that the assured may remain covered in case of change. Should the substitution of one vessel for another cause the risk to be materially altered, the underwriter may require an additional premium. When the happening of an event insured against necessitates transhipment to another vessel, this does not determine the risk, if the phrase "and/or steamers" is inserted, but unless this is specially agreed the ordinary policy does not cover transhipment, even when effected in the normal course of trade.

To cover this contingency, it is usual expressly to include the risk of transhipment.

Deviation.

Any departure by a vessel from the route prescribed, or, where no route is prescribed, from the ordinary trade route, is known as *deviation.*

Unless permitted or justified, deviation releases the underwriters from liability as from the time of deviation even if the accident occurs after the ship has returned to her normal route.

Deviation may, however, be permitted by a "Deviation and/or Change of Voyage Clause" in the policy, while the *Marine Insurance Act*, 1906, excuses deviation: (1) Where caused by circumstances beyond the control of the master and his employer; *or* (2) where reasonably necessary in order to comply with an express or implied warranty; *or* (3) where reasonably necessary for the safety of the ship or subject matter insured; *or* (4) where made for the purpose of saving life, or aiding a ship in distress where human life may be in danger; *or* (5) where caused by the barratrous conduct of the master or crew, if barratry be one of the perils insured against.

Shipping Registers.

The character and condition of the ship or vessel are of vital importance to a marine underwriter, and the need for reliable information on this matter led to the formation of *shipping registers*, which provide a reliable index of the world's merchant vessels, and show the standard of their construction as well as their state of upkeep. In addition, the registers contain other data relevant to the vessels which are of interest to the underwriting and shipping communities. By fixing classification regulations, shipping registers set definite standards in shipping design, construction and upkeep. Of the world's registers, Lloyd's Register of British and Foreign Shipping is easily the most important. Others are those maintained by the Bureau Veritas, British Corporation, Germanischer Lloyd, Norske Veritas, American Bureau of Shipping, Great Lakes Register and Registro Italiano. Lloyd's Register is not in any way controlled by the underwriting association of Lloyd's. It is conducted by a purely independent body representative of all parties interested in shipping, *viz.*, underwriters, shipowners, merchants, shipbuilders and marine engineers (see p. 345 *ante*).

Assignment of Policies.

Marine insurance policies on goods must of necessity be freely assignable, since goods are frequently sold, sometimes several times over, whilst on the water, and the insurable interest therein consequently passes through several hands before reaching the party ultimately taking delivery. In fact, many

of the persons having temporary interest in the subject-matter may have no intention of taking delivery, *e.g.*, operators in "futures" markets. Meanwhile loss may occur.

In the case of *cargo* policies, the general practice is to assign them by blank indorsement—*i.e.*, the assignor merely signs his name on the back, as in the case of a cheque. One effect of this practice is that the party making the claim under the policy may be entirely ignorant of the identity of the person who originally effected the insurance, but actually this is a convenience to the intermediaries (who may not wish the ultimate purchaser to know who was the original shipper), and explains why policies are often made out in the name of an agent.

Indorsements on *hull* policies are usually more specific, *e.g.*, "The interest herein is hereby transferred to........ (Signed)........(Dated)........," for in the case of a vessel, the assured cannot assign his policy without obtaining from the insurers their written permission to the change of ownership or management.

Claims.

Although the broker is directly responsible to the insurer for premiums, the insurer is directly liable to the assured for claims. Consequently, it is to the insurer that the assured has to look for indemnity for any loss. Marine losses fall into two broad classes, *viz.*, *Total Loss* and *Partial Loss.*

A total loss may be either *Actual* (*Absolute*), or *Constructive*; while partial losses comprise what are known as *Particular Average* and *General Average.*

An Actual Total Loss occurs when the subject-matter is wholly destroyed, or is so damaged as to cease to be a thing of the kind insured, or where the assured is irretrievably deprived of possession thereof. Sometimes a vessel leaves port and disappears completely. In such circumstances the only means of proving that the vessel has been lost by a peril insured against is by inference. The *Marine Insurance Act*, 1906, however, provides that where the ship concerned is missing, and, after the lapse of a reasonable time, no news of her has been received, an actual total loss may be presumed. This is commonly termed a "presumed total loss." When a vessel is considerably overdue, the Committee of Lloyd's will, at the request of an interested party, circularise Lloyd's Signal Stations and Agents for news of the ship. If nothing is heard of her during the week after the notices are issued, she will be posted at Lloyd's as missing, and total losses will then be presumed on all policies effected on the vessel.

A Constructive Total Loss occurs where the subject-matter is justifiably abandoned because its total loss appears

inevitable, or where it is so damaged that it is commercially impracticable to restore it.

The term "AVERAGE" is used in a special sense in marine insurance. In fire insurance it means that, in the event of under-insurance, the insured is his own insurer in respect of the amount under-insured, but in marine insurance the term signifies loss or damage. Average is divided into two main classes, "*Particular Average*" and "*General Average.*"

"PARTICULAR AVERAGE" means partial loss or damage accidentally caused to the vessel or to a particular parcel of goods by perils insured against, *e.g.*, damage by sea-water, stranding, collision or fire. Particular Average must be borne by the owners of the property suffering the loss, and is thus distinct from "GENERAL AVERAGE," which is distributed over the whole ship, freight and cargo. Partial loss of goods may be total loss of part of the insured goods, and, if so, the insurer under an unvalued policy must pay up to the insurable value of the part lost, and under a valued policy must pay that proportion of the sum fixed by the policy which the insurable value of the part lost bears to the insurable value of the whole of the property covered by the policy.

If part or the whole of the goods arrives at destination damaged by a peril insured against, an entirely different method is adopted. The gross value which the goods would have had if sound on arrival is compared with the gross value on arrival in damaged condition. "Gross value," according to the *Marine Insurance Act*, 1906, is "the wholesale price, or, if there be no such price, the estimated value, with, in either case, freight, landing charges, and duty paid beforehand; provided that, in the case of goods or merchandise customarily sold in bond, the bonded price is deemed to be the gross value." Gross proceeds (*i.e.*, of the damaged goods) means "the actual price obtained at a sale where all charges on sale are paid by the sellers." Under a valued policy the percentage of depreciation thus ascertained is applied to the insured value, whilst under an unvalued policy it is applied to the insurable value, and the loss thus ascertained is the measure of indemnity. By adjusting on the basis of *gross* values, the underwriters' liability is constant, irrespective of the state of the market. If *net* values were used in the adjustment of particular average claims, underwriters' liability would be affected by market fluctuations, and this does not fall within the scope of a marine insurance policy. Moreover, the percentage of depreciation would be considerably increased.

"GENERAL AVERAGE" means any extraordinary loss, damage or expenditure reasonably and *voluntarily* incurred for the purpose of preserving all the interests (ship, cargo and freight) imperilled in the common adventure, *e.g.*, cargo jetistoned to lighten the ship in order to avoid a casualty

damage to cargo by water used for extinguishing a fire; the cost of towing a disabled vessel to port; damage to a ship's machinery, when worked excessively in order to float a stranded vessel. Such loss, damage or expenditure must be borne proportionately by all those interested, *i.e.*, the contributing interests.

General average exists quite apart from marine insurance, but a merchant or shipowner usually insures against his liability to contribute. If he does this he can recover from the insurer any general average damage which occurs to his goods or vessel, and leave the insurer to recover from the other interested parties a proportionate part of the loss.

The York-Antwerp Rules.

The law obtaining at the place where the adventure ends determines the adjustment of general average, subject to any provision to the contrary incorporated into the contract of affreightment. Inconvenience resulting from the conflicting laws of the various maritime countries on the subject of general average led to a desire for stability, hence the voluntary adoption of a code of rules on the subject.

The latest code is the York-Antwerp Rules, 1924, but the York-Antwerp Rules of 1890 are also likely to be used for some years. The latter set of rules followed congresses held at Glasgow, London, York, Bremen and Antwerp, and were compiled at Liverpool in 1890. In 1924 the York-Antwerp Rules were revised at Stockholm. One or other of these codes is almost invariably incorporated in contracts of affreightment; but, although it is binding as between shipper and shipowner, it has no effect on the contract of marine insurance, hence the incorporation in the policy of the *General Average Clause*, by which underwriters agree to accept an adjustment in accordance with foreign law and practice, or in accordance with York-Antwerp Rules if so provided in the contract of affreightment.

Average Adjustment.

The statement of claim or adjustment may be prepared by the broker or by the assured himself. When insurances are placed with companies, the documents are frequently sent by the assured to the company, which may then make the necessary adjustment. Very often an average adjuster (or average stater) is employed to prepare the statement for presentation to the insurers. Moreover, when a complicated claim is presented to a company without a statement of claim, the company will often send the papers to an average adjuster for adjustment.

An average adjuster, unlike a claims assessor in other branches of insurance, is not an employee or representative of

either the insurer or the assured. He is an independent umpire whose duty it is to state the claim impartially and accurately according to the liability of the insurer under the terms of the policy.

Average adjusters are also employed to make up adjustments of general average on behalf of the interested parties.

Letters of Subrogation.

These are documents executed over a contract stamp which underwriters usually require when settling a total loss, or when settling a claim for partial loss in cases in which part of the goods remains to be realised, or when the assured may have some right of recovery against a third party.

The objects of subrogation letters are :—

(*a*) To transfer the assured's rights arising out of the loss to underwriters and, in the case of a total loss, to transfer to the latter the assured's title in the subject-matter of the insurance.

(*b*) To give formal authority to underwriters to sue in the name of the assured for recovery against third parties, and to guarantee the underwriters all expenses thereby incurred.

(*c*) To emphasise to the assured his responsibilities to the underwriters.

Protection and Indemnity Associations.

Cover against certain risks of loss which are not included in a marine insurance policy in its ordinary form is almost universally obtained by resort to what are known as "Mutual Clubs" or "Protection and Indemnity" (P. and I.) "Associations," which give protection on a mutual basis against losses of this type, *e.g.*, loss of life or personal injury; damage caused to wharves, piers, etc., for which the shipowner may be held liable; claims made upon the shipowner for non-delivery by the owners of cargo which he is carrying.

FIRE INSURANCE

Whilst the business of Fire Insurance is of more recent growth than that of Marine Insurance, the theory upon which it is based, namely, the distribution of the losses of the few over the whole community, was first put into practice many centuries ago. But it was not until The Fire Office (also known as The Insurance Office) was established in 1681, shortly after the Great Fire of London, that the business of fire insurance so called was transacted. This was followed by the formation of numerous other fire insurance offices.

The Ordinary Policy.

Under a fire insurance policy the insurer undertakes, on payment of the premium, and subject to the conditions of the contract, to pay or make good to the insured any loss or damage by fire which may happen to the property covered during the period covered by the policy, up to the amount of the sum specified against the particular items in the policy.

The tariff offices have a standard form of policy, the conditions of which have been adopted by many of the non-tariff companies, *i.e.*, those who are not members of a tariff association (see page 749). "Fire" means "*actual ignition*," and only loss or damage resulting from such ignition is covered. If an actual fire or burning is the proximate cause of the loss, and that fire is *accidental* or *fortuitous* in its origin so far as the insured is concerned, then such loss is covered by the policy. If, for example, an insured's property is damaged by smoke and by water used in extinguishment, as a result of fire in neighbouring premises, his loss is covered under his fire policy. The standard policy also includes damage due to lightning or due to the explosion of domestic boilers or of gas used for domestic purposes or for lighting or heating the building. It excludes, however, from the ordinary cover certain *perils*, the nature of which would affect the premium to be charged; for instance, fire occasioned by earthquake, riot or military power. It also does not cover certain specified *articles*, unless they are specially mentioned as insured, *e.g.*, goods held in trust or on commission, business books, plans, stamps.

The rate of premium varies, of course, according to the degree of hazard involved. Where more than one rate would apply to a risk—*e.g.*, a warehouse—owing to the varying nature of the tenancies, the figure to be charged is that which will produce the highest *net* premium. For instance, if the rate for one tenancy would normally be 7*s*. per cent. net, and that for another 8*s*. per cent. less 15 per cent. discount by reason of the existence of fire-extinguishing appliances, the former rating would be charged.

Average.

Under an ordinary fire policy, *without* the Average Clause, the insured can claim, in the event of a loss, up to the full amount of his policy, although he may be under-insured—*e.g.*, if the value of property is £1000, but it is insured for only £600, and a loss of £500 is sustained, the whole of this amount will be paid by the insurers, *viz.*, £500.

If, however, the above policy is "subject to average," then the insurers pay only $\frac{600}{1000}$ths of the loss—*i.e.*, £300. Thus the effect of the Average Clause is to render the insured liable for

such proportion of the loss as the value of the uncovered property bears to the value of the whole property.

FLOATING POLICIES, largely used for mercantile risks and covering fluctuating stocks held, for instance, in several warehouses, contain also a Second Condition of Average, the object of which is to relieve the floating policy from liability to contribute to a loss which is also covered under a policy of more limited range—*e.g.*, one insuring the contents of one warehouse only—unless this latter insurance is insufficient to pay the whole loss, in which case the floater applies to the balance o the loss, subject to average.

Special Policies.

For the convenience of merchants, several special types of policy have been evolved.

"EXCESS" FIRE POLICIES are issued by Lloyd's and by some of the non-tariff offices. Such policies meet the requirements of traders whose stock on hand is liable to vary in quantity and in value from time to time. The perils insured against are the same as those covered by the ordinary fire policy, but insurance need not be maintained for the maximum amount of stock that may be at risk at any time. The "excess" policy is designed to cover fluctuations in value at an average cost, the *normal* amount at risk being covered by an *ordinary* fire policy on a specific sum insured. For example, it may happen that the normal value of stock in a certain warehouse is, say, £20,000. At any time, however, the value of the stock may increase to £30,000. An ordinary policy is effected for £20,000 and an "excess" policy is taken out for a further £10,000, and maximum cover for £30,000 is maintained. In respect of the "excess" insurance, declarations of the amount at risk are made periodically—*e.g.*, monthly—and from these declarations is ascertained the average amount at risk and the average premium payable.

The difficulty with "excess" policies is that the holder of such a policy, who has also a standard policy covering the main risk, may be penalised by the operation of the condition in the standard policy which limits the standard policy's contribution to a rateable proportion only of the loss. Consequently "excess" policies have been practically eliminated by "*Declaration*" policies.

DECLARATION FIRE POLICIES are similar to "excess" policies but are effected for a sum estimated to cover the *maximum amount which may be at risk at any one time* during the term of the policy, the premium being determined by periodical declarations as described above. These policies are issued by most offices and by Lloyd's.

"ADJUSTABLE" FIRE POLICIES are similar to "Declaration" policies, but whereas, under the latter scheme, the insured

declares the value of the stock at the end of an agreed period (*e.g.*, week or month), under an "adjustable" policy, the policy-holder notifies the company of his requirements on each occasion that the value of the stock insured undergoes appreciable increase or decrease, *i.e.*, *before* the risk is run. Naturally, this type of policy is not in such demand as the declaration type.

FLOATING POLICIES AT AN AVERAGE RATE.—These cover stock floating over the whole of a manufacturer's premises, but instead of the highest rate of premium of any one portion of the risk being applied to the whole (as is normally done), the average rate is calculated and that rate charged for the whole risk.

Another form of cover is provided by "*Sprinkler Leakage*" *policies*, which are designed to indemnify the insured against loss or damage caused to buildings and/or their contents by *accidental* leakage of water from an installation of sprinklers, which automatically operate on the raising of the temperature by fire, and spray water evenly over the affected part of the premises. The damage caused by water on the opening of a sprinkler by fire would, of course, be covered by an ordinary fire policy.

VALUED POLICIES.—The peculiar conditions attaching to marine insurance do not apply to the insurance of goods on land, hence valued policies are the *exception* in fire and other branches of insurance. The value declared in the policy is the amount the insurer will have to pay the insured in the event of a total loss, and the insurers agree to pay this amount, irrespective of the actual value at the time of the loss. Such policies may be useful in insuring works of art and similar property, but may well operate to the disadvantage of both parties to the contract.

Assignment.

Fire and Accident insurance policies are not assignable without the consent of the insurers, the only exception to this rule being where the insured's interest ceases by will or operation of law. The insured may, however, assign the *proceeds* of such policies.

Claims.

Immediate notification of a fire loss is essential so that the insurers may take prompt steps to safeguard their interests—*e.g.*, in dealing with the salvage. Where the loss exceeds a certain amount (say, £20), insurers appoint an assessor to act for them in verifying the extent of the damage.

Loss of Profits Insurance.

An offshoot of Fire Insurance which is of great importance to the business community is that known as Loss of Profits (or Consequential Loss) Insurance, which, in its modern form, may be said to be a product of the present century. Briefly, this

type of insurance is designed to indemnify the insured for the loss of profits which he sustains following an interruption of his business as a result of fire; its utility is, therefore, obvious. The usual policy covers (*a*) Loss of Net Profit; (*b*) Payment of Standing Charges—*e.g.*, interest on debentures and mortgages, directors' fees, rent, rates, salaries to permanent staff and wages to skilled officials, advertising (these charges must be borne by the insured even though business is at a standstill); and (*c*) Increase in Cost of Working—*e.g.*, hire of temporary premises, orders completed by other firms at extra cost, extra advertising.

As in most cases the Gross Profit earned over a period by a business bears a definite ratio to either the *turnover*, in the case of, say, a dealer, or to the *output*, in the case of, say, a manufacturer, the method of ascertaining what the insured's profit would have been had there been no fire is usually to deduct the actual turnover, or output, after the fire from the turnover, or output, in the corresponding period in the twelve months immediately preceding the fire, and to estimate the Gross Profit as an ascertained percentage on the shortage in turnover, or output, respectively.

ACCIDENT INSURANCE

The term "Accident Insurance" originally had particular reference to what is known as Personal Accident Insurance, the importance of which class of protection has been emphasised in recent years by the inception of various newspaper insurance schemes. Personal accident insurance was the earliest form of accident insurance business in this country, but there are now many branches, each of which supplies a definite need. An employer, for instance, has a serious liability under the *Workmen's Compensation Acts*, 1925–31, in respect of accidents to his workpeople, and this can be covered under a Workmen's Compensation policy, whilst the depredations of burglars have emphasised a need for Burglary Insurance. So universal, in fact, is the demand for accident insurance in its various forms, that it would be hard to find a householder who did not possess an accident policy of one kind or another, or a business that had not effected some kind of accident insurance.

Rapid Growth of the Business.

The development of accident business has been exceedingly rapid in comparison with the slower growth of the other classes of insurance. Following the introduction of personal accident insurance, the *Employers' Liability Act*, 1880, resulted in several new insurance companies being formed to deal mainly with employer's liability and personal accident insurance. Towards the end of the nineteenth century, burglary insurance was introduced into this country, whilst more recently the increase

of motor transport has resulted in a rapid growth of Motor Insurance. In this connection, it is interesting to note that under the *Road Traffic Acts*, 1930–4, users of motor vehicles (with a few exceptions—*e.g.*, corporation vehicles) must insure their liability in respect of the death of, or injury to, third parties unless they can produce a substantial security in lieu of insurance.

The liability to a third party, it should be explained, arises in connection with most forms of accident insurance and denotes the liability of the insured to compensate any person who suffers loss through his negligence, *i.e.*, his failure to exercise reasonable care to avoid injuring third parties or damaging their property.

Types of Policy.

The more important types of accident insurance policies in use are:—

Motor.—Four classes of policy are available, namely: (1) for private vehicles, (2) for commercial vehicles, (3) for motor traders' vehicles, and (4) for motor-cycles. The insurance covers loss of or damage to the vehicle or cycle, and includes third party liability. Such items as wear and tear, and mechanical breakdown, are excluded from the cover granted.

Workmen's Compensation.—The policy covers the liability of the employer at Common Law, under the *Fatal Accidents Act*, 1846, the *Employers' Liability Act*, 1880, and the *Workmen's Compensation Acts*, 1925–31, in respect of injuries to his employees arising out of and in the course of their employment.

General Third Party Risks.—Policies are available to cover the special risks of property owners; shopkeepers; theatre, cinema and hotel proprietors; educational authorities; builders and contractors; and professional men, such as doctors, dentists and accountants. Liability may arise following injuries to members of the public as a result of defects in premises, negligence of employees, or lack of professional skill, and such liability may be covered by means of these policies.

Legal costs incurred in contesting claims relating to the liabilities arising under any of the three foregoing types of policy are also covered.

Burglary.—Policies are issued covering the contents of private dwelling-houses against burglary, housebreaking and larceny. The contents of business premises are covered only against burglary and housebreaking, as theft by customers and employees is too great a risk to be assessed. Other forms of insurance issued by the burglary department of an insurance company comprise "all risks" insurances on jewellery, furs, etc.; "baggage" insurance on luggage in transit; insurances on cash and securities in transit; and "cash-in-safe" insurances

FIDELITY.—Briefly, the main object of this form of insurance is to protect employers against financial loss by embezzlement or larceny on the part of specified employees whose duties involve the handling of cash. *Bonds* are also issued to Government Departments: these are too numerous to be detailed here, but include those issued to the Board of Inland Revenue in respect of collectors of income tax, and bonds to the Board of Trade giving security for the proper performance of the duties of trustees in bankruptcy. Another class of fidelity guarantee embraces the various *Court Bonds*; as, for example, those given in connection with the administration of an intestate's or lunatic's estate, which guarantee that the estate shall be properly administered.

PERSONAL ACCIDENT AND SICKNESS.—There are four types of policy, covering (1) personal accidents only; (2) personal accidents and certain specified diseases; (3) personal accidents and all forms of sickness; and (4) accidents and illnesses for a specific term of years—say, until the assured attains the age of sixty-five. The last type of policy is known as a "*Permanent Contract.*" Certain risks are excluded from the cover granted—for example, intentional self-injury or suicide.

ENGINEERING.—Policies are issued covering boilers against explosion; steam, gas and oil engines against mechanical breakdown; electrical machinery against electrical and mechanical breakdown; and lifts, hoists and cranes against mechanical breakdown. The insurance may also provide for third party liability, and law costs.

BAD DEBTS INSURANCE.—The business of bad debts insurance is yet in its early stages, and, although it differs in nature from the ordinary accident insurance contracts dealt with above, it is very often undertaken by the accident department.

Unlike most other classes of insurance business, in Bad Debts insurance the insurance company does not bear the entire risk, the custom being for the insured himself to bear at least 25 per cent. of the loss.

The following are the chief types of policies issued:—

(*a*) *Bills of Exchange Policies.*—These cover loss in respect of bills of exchange (drawn by the insured and accepted by the buyers) for a period and amount not exceeding the period and amount stated in the policy schedule opposite the buyer's name. All bills accepted are declared to the insurers and are written off the sum for which the policy is effected, the policy being exhausted when the sums declared reach the stipulated amount. The insured is usually given the right, on payment of *pro rata* additional premium, to extend or renew bills for a period of three months from the original date of maturity. The rates for this type of policy are based upon the period for which the bills may be drawn.

(*b*) *Open Account Policies.*—Although somewhat similar to the above, these policies cover loss under open account transactions, the amount of each invoice being declared and written off the total sum insured. The original period of credit may be extended and the premiums are calculated in a similar manner.

(c) *Time Policies.*—These guarantee, during a period up to twelve months, the solvency of specified customers to whom credit has been granted for goods sold and delivered. The premium is based on the largest amount of credit given to any customer at any one time, irrespective of the total credits given during the course of the year. No declarations are made, and if the insurers are willing to invite renewal the cover is continuous, subject to the payment of the renewal premium. These policies are particularly suitable for firms carrying on regular business with fixed customers.

(d) *Whole Account Policies.*—Premiums are based in these cases on the total gross invoice value of goods sold and delivered during the period of insurance. Losses up to an agreed percentage of the total sales are borne by the insured, the insurers being liable for a proportion of the excess. The percentage to be borne by the insured is, of course, ascertained by an examination of the experience of previous years.

(e) *Resale Loss Policies.*—When a buyer fails, the seller occasionally takes back the goods which he has sold, and may then be unable to obtain the same price for them as when he first sold them. These policies cover a proportion of the loss sustained on any resale in this manner.

THE GOVERNMENT EXPORT CREDIT SCHEME, which is dealt with in Chapter 34 of this book, is also a form of bad debts insurance designed primarily to foster the export trade.

MISCELLANEOUS.—Various other types of insurance are transacted by the accident department, but they are not of sufficient importance to be described here. They include live stock, plate glass, aviation, hailstorm and bad weather insurance. Most companies also issue so-called "Comprehensive Policies," which afford the holder a combined cover against risks of loss from fire, burglary, larceny and other enumerated perils.

LIFE ASSURANCE

Under a contract of life assurance the assurer agrees to pay a given sum upon the happening of a particular event contingent upon the duration of human life. For instance, under an *endowment assurance* the policy moneys are payable on the life assured's surviving a period of years—*e.g.*, on his attaining the age of 60—or at his death should that occur previously; under a *whole life assurance* the policy moneys are payable at death only.

Utility.

The most important uses of life assurance are to provide for dependants and old age; for the repayment of capital on a partner's decease; collateral security for a loan; and payment of death duties. In recent years group life assurance—frequently combined with a pension scheme—has come very much to the fore. Employers often feel obliged to make a payment on the death of an employee, and they may provide for this

by effecting a group insurance. The knowledge that such an assurance is in force tends to promote good feeling amongst the staff and acts as an incentive to remain with the firm.

Important Features.

Life assurance appeared in its present form in 1762, when, for the first time, premium rates were based on tables of mortality —*i.e.*, tables by means of which are measured the probabilities of life and the probabilities of death. The idea that established the present reversionary bonus system was conceived shortly afterwards. Nowadays, at least once in every five years, a life office is bound by the *Assurance Companies Act*, 1909, to make a valuation of its assets and liabilities, and the greater portion of the surplus of assets revealed is divided amongst the policy-holders entitled by the terms of their contracts to participate. The amount so distributed is known as a *Reversionary Bonus*, and is usually payable in the same event as the sum assured, though there are one or two offices which pay the bonus in cash.

Companies transacting life business are classed as *mutual* offices and *proprietary* offices. The former are owned and run by the members (*i.e.*, the with-profit policyholders) for their own benefit, there being no shareholders. The policies, however, expressly exclude the personal liability of every director, officer, member and non-profit policyholder. Although proprietary companies exist for the benefit of their shareholders, it is usual to devote 90 or 95 per cent. of the profits of the life department to bonuses for the "with-profit" policyholders. There is no need here to consider all the points of difference between these two classes of assurance office, but in comparing them in practice, regard must be had to the rate of premium and of bonus, policy conditions, basis of calculating reserves, surplus carried forward, interest yield, expense ratio, etc.

The industrial assurance companies (*i.e.*, those which issue, *inter alia*, policies for small sums, the premiums on which are payable to collectors at intervals of less than two months) are proprietary concerns, and, generally, profits belong entirely to the shareholders, although several of these companies now allot bonuses to their policyholders.

Life Assurance Premiums.

The general principle on which premiums for life assurance are based is the law of probabilities, which is closely allied to the principle of average—fundamental in all branches of insurance. If a sufficiently large number of lives is kept under observation for a number of years, and the deaths that occur in each year of age are accurately recorded, a mortality table can be compiled.

That much-misunderstood term, "expectation of life,"

refers to the *average* after-lifetime of a *body of persons* of a certain age, according to a given mortality experience. It is frequently misused in reference to a *single* life. The "expectation of life" is never used by actuaries in calculating rates of premium, but it may be legitimately used by medical officers as a guide in rating up lives who are not first-class, and for comparing the results of different mortality tables.

In translating the probabilities of life and death into monetary values, compound interest must be introduced. Thus, if the chance of dying at the end of a year of a life aged 40 is ·035, the present value of a pound payable on his death at that time is obviously £·035 discounted for one year. In this way, by combining probabilities and compound interest, the *net* or *pure* premium is arrived at, and by making the necessary allowance or "margin of loading" for expenses of management, bonuses for with-profits policies, and dividends for shareholders, the *gross* or *office* premium is obtained.

Life assurance differs, however, from other branches of insurance, in that the premium once fixed cannot normally be altered, although the risk increases with age. Thus a level premium is payable throughout life, the excess premium over that required to cover the risk and expenses in the earlier years being accumulated at interest to provide for the deficit in later years, when current risk and expenses exceed the premium payable. This balance is known as the *policy reserve*, out of which may be paid surrender and loan values, and from which the amount of paid-up assurance may be calculated.

Surrender Values.

The *surrender value* of a life policy is the amount which the assurers are prepared to pay in total discharge of the contract. In normal circumstances it represents a large proportion of the reserve of the policy. Under whole life assurance (where the policy moneys are payable at death), endowment assurance (where the policy moneys are payable on a certain date, or at death, whichever occurs first), and similar policies, surrender values naturally increase with each payment of premium, though, of course, such increased value thereafter diminishes somewhat until another premium is paid, as *current risk* steadily increases. There is, however, no direct relationship between such surrender values and the premiums paid, although some companies guarantee minimum surrender values based on a percentage—commonly 40 per cent.—of the premiums paid.

From the foregoing it should be obvious why a surrendering policyholder cannot expect to obtain the return of all the premiums he has paid. He has been covered against risk during the currency of his policy, and this cover has to be paid for Moreover, as in other branches of insurance, the fortunate

policyholders who have not yet made any claims help to pay for the claims of their less fortunate associates.

Not all policies normally carry surrender values—*e.g.*, temporary assurances, on which the premiums are little more than sufficient to cover cost of current risk and expenses. Where, however, a surrender value exists, a loan value also generally obtains.

Loans on Policies.

The *loan value* of a policy is the amount which the assurers are willing to lend on security of the policy, and is usually about 95 per cent. of the surrender value, the balance of 5 per cent. being retained by the company as margin for a year's arrears of interest.

Paid-up Policies.

The *paid-up policy value* is the amount to which the sum assured (and bonuses, if any) would be reduced at any moment if the assured requested a rearrangement of his contract so that no further premiums should be payable.

Assignment.

Life assurance policies are freely assignable. They may be sold, mortgaged or settled, the assignment usually being made by deed, notice of which, in duplicate, should be given to the assurance office, accompanied by the fee (not exceeding 5*s.*), as prescribed by the *Policies of Assurance Act*, 1867.

Claims.

Claims may arise by death or at maturity of the policy, and are payable on proof of the event and subject to verification of the title of the claimant to the policy moneys.

Annuities.

Most life offices do annuity business. They undertake, on payment of a certain amount, to pay to the purchaser a specified annual sum, *i.e.*, an *annuity*, for the remainder of his life. The purchase price of the annuity varies with the size of the annuity and the age of the prospective annuitant. Naturally, the price to an elderly person is lower than the price to a younger person.

Deferred Annuities.—Where an immediate annuity is bought, the first payment of the annuity by the life office is made within a short period, *e.g.*, on 1st January following the purchase. It is, however, possible to buy an annuity, payment of which is deferred, say, for 20 or 30 years after the contract is entered into. The purchaser of the *deferred annuity* may pay a lump sum down at once and nothing more, or he may make annual payments over a period of years.

COMMON INSURANCE TERMS

Proposal.

This is the printed form on which a prospective insured—*i.e.*, a *proposer*—makes written application for the issue of a policy. It contains questions relating to the risk, which must be answered by the proposer, who has to avow the truth of his statements in a declaration dated and signed by him.

In fire insurance the proposal form is frequently dispensed with, but it is usually required in respect of private house contents, shop and farming risks. The necessity for a proposal form is eliminated to some extent by the fact that other fire risks almost invariably require to be surveyed. The proposal form becomes the basis of the contract, in which it is usually expressly incorporated, except in the case of fire policies.

Cover Note and Deposit Receipt.

This is a letter or printed form used in the fire and accident branches, and is issued to a proposer on receipt of a proposal, notifying him that he will be held covered from the date of the note until a policy has been issued or his proposal declined. The document stipulates that the cover is subject to the terms and conditions of the policy, the salient conditions of which should be printed on the cover note. In life assurance, cover notes are seldom used except for foreign business. Usually, no premium is paid at the time, but if a payment on account is made, a deposit receipt is issued which constitutes a combined cover note and receipt. Provided that the cover note or deposit receipt is issued provisionally only, and is replaced within one month by a duly stamped policy, the requirements of the *Stamp Act*, 1891, are satisfied.

Form of Contract.

In order that an action may be sustained on a contract of fire or accident insurance, it is not essential for the contract to be embodied in a policy, though this is the almost invariable practice. A marine insurance or a life assurance contract, however, must be incorporated in a policy.

No marine insurance policy may be effected for an indefinite period of time or for a period of time exceeding twelve calendar months, but *no such provisions apply to policies other than marine.*

Indorsement.

In fire, life and accident policies an indorsement is a special condition appended or affixed to the policy, to provide for a certain special requirement not otherwise found in the printed

(standardised) text of the policy. An alteration of the policy properly effected by indorsement overrules any conflicting printed matter, since the indorsement is deemed to express the particular intentions of the contracting parties. In some quarters it is considered that an indorsement made after the signing of the policy constitutes a new contract, and as such requires re-stamping. In practice, however, few insurers stamp indorsements, except when the sum insured is increased.

Warranty.

This is a promise by the insured that a certain condition shall be fulfilled, or one affirming or denying certain facts. If a warranty, whether material to the risk or not, is not literally complied with, the insurer may treat the contract as void from the time of the breach. The warranty need not be contained in the actual policy : it is sufficient if it appears in any further document which is, by reference, incorporated in the contract, *e.g.*, a proposal form. Warranties may be *express* or *implied* (see Chapter 17).

Representation.

This is any statement made by a proposer or his agent, not being a warranty, which forms a portion of the premises from which the other contracting parties draw their conclusions either to accept or to reject the contract, and by which they are guided in fixing the terms and adjusting the conditions thereof. Unlike a warranty, a representation need only be substantially correct.

Days of Grace.

Life policies contain a condition requiring payment of the premium within certain days of grace, normally 30 days, but where the premium is unpaid at the end of that period, the policies generally provide that the assured shall be protected under a non-forfeiture scheme. Most fire policies are renewable at a quarter day, 15 days' grace being allowed, except in the case of short-period insurances. In accident business the days of grace vary, but 15 days are usual ; burglary policies usually keep to the quarter days, but the others spread over the year. In fire and accident policies, days of grace are not stipulated in the policies but are a custom of the business, which is recognised by the Courts and will be enforced by them, provided that the insured has not indicated his intention not to renew. Days of grace are not met with in marine business.

"Ex Gratia" Payments.

These are payments made "without prejudice" to the insured in respect of losses for which the insurer is not legally

liable, and are common to all branches of insurance, except life assurance. Very often the insurers are morally liable for a claim not legally enforceable, as where there is an innocent misrepresentation by an agent, or a pardonable misunderstanding by an insured.

Brokers and Agents.

The relationship of insurer, broker and insured in Marine Insurance has already been shown. Brokers and agents act also as intermediaries between insurers and insured in other classes of insurance, the word " broker " being used to designate one engaged solely in this work, whilst an " agent," as a rule, devotes the major portion of his time to some other business or profession, and conducts the insurance agency merely as a subsidiary occupation. Whether a broker or agent is the agent of the insurer or of the insured (other than in marine insurance), depends on the actual circumstances of each case.

BASIC INSURANCE PRINCIPLES

Good Faith.

Insurance contracts, unlike most other contracts in which the parties are merely required to abstain from positive deceit, are characterised by the need for the utmost good faith (*uberrima fides*) by all parties throughout the contracting period, and the doctrine of *caveat emptor* (let the buyer beware) does not apply.

The insured must not only tell the truth in all statements made by him to the insurers, but must also disclose everything that is, or ought to be, known to him. A fact is material if it would influence prudent insurers in accepting or declining the risk or in fixing the rate of premium.

The duty of good faith applies equally to the insurers, who are bound to place at the disposal of the proposer all information which they possess concerning the risk.

Insurable Interest.

Insurance has often been regarded as a wager, and, indeed, the contract of insurance has often been used for gambling, *e.g.*, on the expectation of human life, or on the risk of loss by maritime perils. It is often difficult, in fact, to draw the line in insurance between a contract which is a legitimate transaction and one which is by way of gaming, but the acid test is what is known as *insurable interest.* An insurance contract effected for the benefit of a person who has no insurable interest in the subject-matter insured (or, in marine insurance, a *bona fide* expectation of acquiring such interest) is unenforceable at law, and in certain instances—*e.g.*, policies by way of gambling on loss by maritime perils—creates criminal responsibility on the parties to the contract.

Insurable interest exists only if the following conditions are fulfilled :—

(*a*) There must be some physical object or chose in action on which the insured peril can operate, or some potential liability which the insured peril may cause to come into force.

(*b*) This object, chose in action or potential liability must be the subject-matter of the insurance.

(*c*) The insured must bear some relation thereto, recognised by law, in consequence of which he stands to benefit by the safety of the property or chose in action, or by the absence of liability, and be prejudiced by the loss of the property or chose in action, or the existence of liability.

The moment at which insurable interest must exist varies according to the particular class of business, as follows :—

(*a*) Fire and Accident Insurances.—Both when the policy is taken out *and* when the loss occurs.

(*b*) Life.—When the policy is taken out, but not necessarily when the claim is made.

(*c*) Marine.—At the time of the loss only.

A person who takes an assignment of a life policy, however, need not, at any time, have any interest in the life assured apart from the consideration for which he took the assignment.

Indemnity.

With the exceptions of Life and Personal Accident business, all classes of insurance are based upon the principle of indemnity. If this principle did not apply, insurance would become a mere gamble upon the happening of an event, the occurrence of which would benefit the insured, and over-insurance would be the rule rather than the exception.

Subrogation.

Subrogation is the right which one person has to stand in the place of another and avail himself of all the rights and remedies of that other.

To ensure the equitable operation of the principle of indemnity, subrogation precludes the insured from being indemnified from two sources in respect of the same loss. In cases of double or over-insurance, the insured is not permitted to obtain more than legitimate indemnity, neither is it permissible for him both to claim under a policy of insurance and also to retain any damages recovered from third parties.

Insurers are entitled at Common Law to be subrogated, to the extent of the loss paid, to all rights which exist against third parties in respect of the loss, and may require the insured

to enforce such rights, in his own name, but at the insurers' expense. Fire and Accident policies usually contain a condition, modifying the Common Law, to the effect that the insured may be required to institute the action *before* payment of the loss. If the amount recovered in such an action exceeds the amount payable by the insurers, the insured may be called upon to pay his proportion of the legal costs incurred. Marine policies, however, contain no such condition, and the loss must be paid before subrogation can be enforced. It is usual for insurers to require the assured to sign "Letters of Subrogation" (mentioned earlier in this chapter) agreeing to take proceedings, if required, on behalf of the insurers but in the name of the assured.

Subrogation does not apply to insurances other than contracts of indemnity.

Contribution.

The Contribution Clause is common to fire insurance and applies in some classes of accident insurance. It limits the amount claimable from individual insurers so that the amount payable by each insurer is governed, not by the sum insured by him, but by his rateable proportion of the loss. Were it not for this clause, an insured could recover from any individual insurer the full amount of his loss (up to the sum insured by the policy), but the principle of contribution would apply, so that an insurer who had paid more than his fair proportion of a loss could enforce contribution afterwards from the other insurers.

When an insured recovers a sum greater than his prescribed indemnity, he holds the surplus in trust for the benefit of the insurers in proportion to their rights of contribution.

Contribution does not apply to life assurance or personal accident insurance, but it is observed in the marine branch, although here the Contribution Clause itself is unknown, and, where there is over-insurance or double insurance, the assured may claim on his insurers in whatever order he pleases, any insurer paying more than his due proportion being entitled to enforce contribution from his co-insurers.

Arbitration.

Most fire and accident insurance policies contain a clause providing that differences arising thereunder shall be referred to arbitration.

Lloyd's underwriters, however, do not insert an Arbitration Clause in their policies. To bring an action under a Lloyd's policy, the individual underwriters have to be sued—not the Corporation of Lloyd's, which is not a party to the contract. The first signing underwriter is sued, the others usually agreeing to be bound by the decision.

Cancellation.

The Cancellation Clause is used in Marine floating policies and open covers, and it is usual for notice of cancellation to be given by the insurers as a body, through their particular organisation—*e.g.*, the Institute of London Underwriters. The clause is also used in most Accident policies.

The usual form provides that the insurers may at any time give the insured by registered post a stipulated period of notice of cancellation, on returning in respect of unexpired time a *pro rata* proportion of the premium.

It is only in extreme cases that Cancellation Clauses are enforced, as when disastrous claims are experienced, where there are grounds for suspecting fraud on the part of the insured or where the insured has proved to be quite unreasonable.

TARIFFS

In Marine insurance individuality is the keynote, and though rate agreements (tariffs) have been introduced in the past, they have usually quickly fallen into disuse from lack of support.

Insurers in the fire and accident branches, however, are divided into two clearly defined groups, the tariff and the non-tariff offices, Lloyd's underwriters belonging to the second category. By pooling their experience, the tariff offices have been able to fix minimum ratings at which business can be underwritten profitably and economically, extra premiums being charged for special features of hazard. The non-tariff offices prefer to retain their freedom and individuality, and attempt to obtain good results by discrimination and economical management.

In recent years competition between the two groups has become very keen, and the tariff offices are making strenuous efforts to bring their rates down to a minimum. Several fire tariffs have been revised and reductions in premiums effected, and special concessions are now granted for insurances of special importance, where tariffs would bear harshly on individual cases.

The schedules of premiums individually adopted by Life Offices are compiled by actuarial calculation from data yielded by past experience.

REINSURANCE

Two main reasons account for the utility of reinsurance, *viz.* :—

(1) It is not wise for insurers to concentrate their commitments. They, therefore, so spread their risks that they are as numerous and as varied in character and

location as possible, in order that the law of average may operate to reduce to a minimum the chance that their funds may be crippled by any single catastrophe.

(2) Prudent insurers endeavour to unload undesirable risks to which they may be committed and thus cut their losses. On the other hand, where an opportunity occurs of "getting off a risk" at a profit, *i.e.*, by reinsurance at a rate of premium less than that originally paid, insurers prefer to make a sure profit rather than remain on the risk.

Reinsurance is common to all branches of insurance, and may be effected either *facultatively* or by *treaty*.

Facultative Reinsurance.

This signifies reinsurance of individual risks or part thereof, the reinsurer having the power of discriminative selection. The reinsurance may be against all the contingencies covered by the original policy, or certain of them only. In marine and life business, a reinsurance policy is almost invariably issued, but in the fire and accident branches, policies are usually dispensed with.

Treaty Reinsurance.

This type of reinsurance means reinsurance by an agreement between insurers and reinsurers, whereby the reinsurers agree to accept during a specified period, without the option of declining, a certain proportion of any risk over the insurers' limit. No reinsurance policy or guarantee is issued, the contract being contained in a signed agreement which is, to all intents and purposes, a policy of insurance.

A reinsurance treaty is generally mentioned in terms of *lines*, *e.g.*, a six-line treaty is one under which the insurers automatically obtain cover for six limits in addition to their own limit. If the insurers' limit were £2000, they could reckon on a £12,000 cover from their treaty, and so could accept £14,000 on a risk without facultative cover. This six-line treaty might be subdivided amongst six reinsurers, each taking a line, or twelve reinsurers, each taking half a line.

Treaties have an advantage over facultative reinsurances in that the system enables an office to grant cover without having first to obtain the consent of reinsurers, thus saving time and facilitating business. Treaty reinsurance business is generally done by companies existing solely for that purpose, or by foreign companies having branches or agencies for the purpose in this country.

Reinsurers cannot be forced to share in *ex gratia* payments, although they may, and very often do, agree to abide by the decision of the principal office. Usually, however, a treaty

provides that the reinsuring office shall in this respect follow the fortunes of the direct company.

UNINSURABLE RISKS

Despite the importance and utility of insurance in business economics, it is obvious that many of the risks incidental to business are uninsurable: they are so closely related to the management of the business that no insurance company would undertake them. Whilst, therefore, a wide range of insurance protection is nowadays available, businesses must protect themselves from those risks which may be guarded against only by skilful management, as, for instance, by exercising foresight in buying and selling, in meeting competition, and in providing for changes of fashion.

QUESTIONS BEARING ON CHAPTER 46

1. What are the essential features necessary to a General Average Contribution? Give examples of a General Average Loss. (*London Chamber of Commerce.*)

2. May (*a*) a marine insurance policy, (*b*) a fire insurance policy, be assigned? If so, in what manner may this be done? (*London Chamber of Commerce.*)

3. Explain the object of a consequential loss insurance (Fire). In what way is the settlement arrived at under the policy? (*London Chamber of Commerce.*)

4. What is the use of a Floating Policy in Marine Insurance? (*London Chamber of Commerce.*)

5. How does a total loss differ from a constructive total loss in Marine Insurance? (*London Chamber of Commerce.*)

6. A.B. is shipping to Cape Town machinery invoiced at £20,000, and decides to take out a Lloyd's policy to cover the risk of marine losses.

Describe the procedure which will be followed by the parties concerned before the policy is handed to A.B. (*C.A., Inter.*)

7. Are the undermentioned policies valid?
   (*a*) Y. borrowed £1000 from his bankers, and agreed to pay the premium on a policy on his own life for £1500, assigned to X., who became surety for the above loan and to whom he owed £250 for goods supplied.
   (*b*) A policy for £2000 taken out by A. on the life of his partner, B. (*C.A., Inter.*)

8. In connection with Marine Insurance explain—(1) Subrogation; (2) Time Penalty Clause; (3) Contributing Interests. (*C.A., Inter.*)

9. What are the essential features appertaining to a General Average loss? (*C.A., Inter.*)

10. Explain, in connection with Fire Insurance, the term "A Valued Policy." (*C.A., Inter.*)

11. Upon what basis are claims for particular average on cargo adjusted, and for what reasons has this basis been adopted? (*R.S.A., Stage III.*)

12. What is an open policy of marine insurance? Under what circumstances is it used, and how would the insurance of a given consignment be effected under it? (*R.S.A., Stage III.*)

13. In what cases are "Certificates of Marine Insurance" employed instead of actual insurance policies? By what bodies are these certificates issued, and what is the procedure followed by a merchant in making use of them? (*R.S.A., Stage III.*)

14. Define the following terms: Insurance, Assurance, Policy, Mutual Company, Proprietary Company, Tariff Company, Surrender Value, Insurable Interest, Reinsurance and Valuation Balance Sheet. (*S.A.A., Inter.*)

15. Explain the term "Assurable Interest" in regard to Life Assurance. (*C.A., Inter.*)

16. State whether *caveat emptor* applies to Insurance business. Give reasons for your answer. (*A.I.C.A., Inter.*)

17. As regards Life Insurance, what is meant by—
(*a*) The Pure Premium; (*b*) The Margin of Loading?
(*A.I.C.A., Inter.*)

18. Define (*a*) Insurance Agent; (*b*) Insurance Broker; (*c*) Insurance Company; and what are the relations, if any, existing between them? (*A.I.C.A., Inter.*)

19. Define the following terms in connection with Insurance: Reinsurance, Insurable Interest, Average Clause. (*I.C.P.A., Inter.*)

20. Explain the terms—Endowment Assurance, Surrender Value, Indicate generally on what basis the surrender value of a life assurance policy is fixed. (*I.C.P.A., Inter.*)

21. "The average clause is very often found in fire insurance policies." What is the effect of this clause? Illustrate your answer. (*London Chamber of Commerce.*)

22. What is a "Lloyd's" insurance policy? In what respects does such a policy differ from one issued by an insurance company? (*S.A.A., Inter.*)

23. Give the meaning of the following expressions: General Average. Particular Average. (*S.A.A., Inter.*)

24. What items are generally included in a claim made by a business house for consequential loss under a fire insurance policy? (*C.A., Inter.*)

25. What do you understand by "Surrender Value" in connection with a life policy? (*C.A., Inter.*)

26. What are the duties of an average adjuster? (*C.A., Inter.*)

27. Contrast the following, emphasising the principal points of similarity and difference between Policies of Insurance and Assurance. (*S.A.A., Inter.*)

28. What is "Lloyd's," and what functions are performed (*a*) by the Corporation, (*b*) by its Members? (*London Chamber of Commerce.*)

29. (*a*) What is a General Average Loss?
(*b*) What are the rights of a person on whom it falls?
(*C.A., Inter.*)

30. Specify three classes of loss which are definitely excluded from a marine insurance policy by the terms of the Marine Insurance Act. (*R.S.A., Stage III.*)

31. In what circumstances can a claim for presumed total loss of a ship apply, and what is the custom in such cases? (*R.S.A., Stage III.*)

32. What is the distinction between "Insurance" and "Assurance"? (*C.A., Inter.*)

CHAPTER 47

THE TRADE CYCLE

UNDER modern conditions production takes place almost entirely in anticipation of a demand which can only be roughly estimated and which may not be realised. Further, the fact that producers are normally in absolute ignorance of the actions of their competitors makes it obvious that an expectation of an increased demand may bring about an increase in production (comprising the aggregate of the increase in the supplies produced by a number of producers) which is quite out of proportion to the expected increase in demand.

Stagnation may begin in any one branch of industry, but so intimately connected are the various parts of the economic machine that conditions in any one industry are soon reflected in the conditions which prevail throughout industry generally. Not only are the producers of one industry the consumers of the products of other industries, but also the psychological effect of depression or of prosperity is widespread. After a failure in any one industry, other producers are reluctant to extend their operations and are willing only to proceed cautiously with their commitments. On the other hand, the success of one group of producers is a direct encouragement to greater effort on the part of others. Thus, bad times and good times in various industries tend to occur at approximately the same periods.

This more or less general tendency has become known as the *synchronism* of trade fluctuations, and the regularity with which periods of depression and stagnation alternate with periods of activity and expansion has led to the description of "*trade cycle*" or "*credit cycle*" being applied to the recurring disturbances to which modern industry is subject. The culmination of each trade cycle is usually marked by a financial crisis of greater or less severity, although these financial crises sometimes occur from causes other than trade fluctuations.

The Course of a Trade Cycle.

Since there is an unending movement in the volume of trade, it is necessary to begin an analysis of the trade cycle at a more or less arbitrary point, and the point usually taken is that where trade is beginning to revive. Prices are rising, and production is stimulated, for whilst the prices of raw materials and basic commodities, such as coal and iron, are sensitive to trade move-

ments, and move with or even in anticipation of prices in general, yet wages and other standing charges lag behind; consequently, profit-margins are widened. Trade expands in all directions. Many new enterprises spring into being, and there is ample employment for the working classes. Gradually, however, prosperity begins to generate its own checks. Wages are forced up and labour costs are increased, overtime rates are paid and the less efficient workers are absorbed into industry. Production costs rise as old equipment is brought into use and competition for new equipment and raw materials sends up their prices disproportionately: finally, credit and capital charges are raised. A point is eventually reached when it is evident that costs will overtake receipts; when this is perceived the boom ends, and, if the change comes suddenly, there is a financial crisis and a sharp curtailment of credit. The order of events is reversed on the downward slope. Costs cannot be reduced as rapidly as selling prices fall. Wages can be forced down only with difficulty, and labour has to bear its share of the depression in the form of unemployment.

Like the boom, the depression produces its own correctives. Labour, credit and other standing charges are gradually forced down; production costs are reduced as the less efficient firms, machinery and workers go out of productive service, and as the commitments of the boom period are gradually liquidated. Eventually costs fall below selling prices and profitable enterprise again becomes possible.

The Cause of Financial Crises.

The financial crises which mark off the phases of the trade cycle are the almost inevitable result of speculation during the active or prosperous phase. A period of credit expansion due to demands for accommodation for speculative purposes is followed by a sudden contraction of credit when public confidence is shaken by some startling event. That event may be the outbreak of war, the sudden failure of a large firm or a bad harvest, in fact, any event which shakes public confidence in the immense volume of credit built up on a relatively small basis of currency, and which causes a sudden demand for payment. Following the collapse, stagnation ensues for a time, but public confidence gradually revives, credit schemes extend, speculation may become rife, and inflation of credit again takes place. This continues until another disturbing event occurs, with a recurrence of similar conditions.

Causes of the Trade Cycle.

The Trade Cycle has been called the "great unsolved economic mystery." Various economists have formulated theories to explain the peculiar regularity of the cycle, but

no single theory has yet been advanced which satisfactorily solves the problem. Of the many theories brought forward, the most prominent are the Psychological Theory, the Monetary Theory, and the Overcapitalisation Theory.

The Psychological Theory.

This emphasises the importance of the state of mind of business men. As states of mind are infectious, and as business firms are closely bound together by a network of orders and credit relations, depression in any one centre rapidly spreads throughout industry. Hence the business world is permeated at one time by undue optimism and at another time by undue pessimism. In good times, business men are over-confident and ready to expand their commitments, and when they find that the goods they have so lavishly produced cannot be sold at a price high enough to cover costs of production, and that they are suffering losses, they curtail their activities, depression ensues and in place of excessive optimism undue pessimism prevails.

The Monetary Theory.

The Monetary Theorists point out that purchases are made largely with borrowed capital, advanced at low rates by the banks in a period of rising prices. As long as production keeps pace with the increasing volume of money, prices are held in check and all is well. But the banks, it is claimed, continue to lend even when the limits of genuine productive expansion have been reached, and by so doing they encourage the boom to reach unhealthy limits. Speculators take advantage of the low money rates, and a speculative boom is superimposed on the production boom. Prices rise rapidly, credit expands, the demand for legal tender increases and there follows a drain on bank reserves which is usually accompanied by an outflow of gold. In face of these conditions the Central Bank takes steps to restrict credit, bank and other loans are reduced and called in, whilst business generally contracts as business men can no longer find the accommodation necessary to finance their operations. Frequently a crisis supervenes, and a period of depression sets in, but it is contended that if the banks lent more freely at this period and so maintained business confidence, the depression might be made less intense and prolonged. According to the monetary theorists, therefore, banking policy is important in determining the height to which a boom can rise and the depth to which a depression can fall.

The Over-Capitalisation Theory.

This theory asserts that too large a proportion of the wealth produced goes to a small wealthy class whose consumption capacity is limited. In consequence, too large a proportion of

the wealth produced is saved and invested, and this leads to a disproportionate production of capital goods. For a time this causes prosperity, but as the new capital comes into active production, the volume of goods produced is increased. The wages of the workers may rise during the period of prosperity, but as prices also rise, possibly ahead of the rise in wages, their power to consume is not extended. Hence occurs a period of over-production, causing a falling price level, decreases in wages and widespread unemployment, *i.e.*, all the usual features of a depression. Eventually, the elimination of weak producers and the using up of surplus stocks causes demand to catch up with supply; this creates a demand for capital goods, and the cycle recommences.

Remedial Measures

As the cause of the cycle is uncertain, it is natural that much difficulty is experienced in combating its effects, but several measures have been suggested to achieve greater stability in industry. Briefly, these are:—

(*a*) FULLER STATISTICAL KNOWLEDGE ON WHICH TO BASE AN ESTIMATE OF THE FUTURE.—In this respect, the Harvard and Cambridge Economic Services and the Exchange Telegraph Company publish Monthly Business Barometers and other relevant statistics which are designed to aid the business man in forecasting the future trend of prices.

(*b*) THE PLANNING OF BUSINESS EXPENDITURE OVER LONG PERIODS.—This should be done both by private firms and by local and central governments. Many American firms have achieved remarkable results in the direction of stability by planning capital expenditure far ahead, by making an annual appropriation for advertising and renewal of equipment and using it in bad times, and by closely scrutinising customers' credits and not being afraid to decline orders when trade is brisk.

(*c*) THE ADJUSTMENT OF THE VOLUME OF CREDIT IN ACCORDANCE WITH THE REQUIREMENTS OF TRADE AND INDUSTRY.—It is considered by some monetary theorists that currency and credit should be consciously manipulated with a view to maintaining steady prices; but this would not provide a perfect remedy, since monetary conditions are not the only factors in trade fluctuations.

(*d*) THE PROVISION OF A MORE STABLE DEMAND FROM CONSUMERS.—The extension of instalment buying or hire purchase is claimed as a method not only of *stimulating* demand, and thus increasing production and lowering prices, but also of *stabilising* demand over a period and so reducing the momentum of the trade cycle. If

used scientifically the hire purchase system may stimulate demand in times of depression, but, if it is to mitigate the effects of industrial fluctuations and not lead to inflated conditions, it must be subject to careful regulation in times of booming trade.

It is a moot point whether the fluctuations of trade can be entirely eliminated, but it is certain that much can be done to secure greater stability than at present exists. As things are now, the energies of society are uneconomically distributed, since at one time there is feverish activity, whilst at another there is stagnation and depression.

Unemployment.

A serious aspect of the Trade Cycle is the marked fluctuation in the volume of employment, and especially the rapid increase in the figures of unemployment during times of depression.

Careful analysis of the problem of unemployment shows that it is extremely complex, and that it arises not from any one cause but from many distinct though closely related factors in the economic structure of society.

Seasonal Fluctuations in Particular Trades.—The marked differences between summer and winter employment in the building trade and in agriculture are well-known examples of conditions which are actually to be found throughout industry. January is the busiest month at the docks; May, June and July in the clothing trades; July and August for the railway service and all occupations at holiday resorts; whilst in December, coal-mining, the post-office service and the gas and electricity works all show their largest volume of employment.

Some of these fluctuations are caused by climatic conditions, as, for instance, in building and agriculture; others appear to depend on fashion alone, for example, those in the printing trade; in others, both climate and fashion have their effects.

Changes in Industrial Structure or Methods.—Workers may be thrown out of work, temporarily or permanently, on the introduction of new machinery and processes; the substitution of one product for another; the transference of an industry from one district to another, and similar changes, all of which involve a discontinuity of production.

A "Reserve of Labour."—Variations in the demand of individual employers for unskilled workpeople produce as an integral part of our industrial system a standing "reserve of labour" or a "margin of idleness" from which additional help can be obtained in times of pressure. The most marked example of this situation is the case of dock labour, where casual employment is the rule and where, even in the periods of greatest activity, there is always a margin of unemployed.

The Cyclical Fluctuation of Industry.—The alternating periods of prosperity and depression are by far the most important of the various elements in the unemployment problem. The cycle or fluctuation extends far beyond "industry" in any narrow sense, and leaves its mark on almost all economic activity. Moreover, the phenomenon is international in its scope, and a roughly contemporaneous fluctuation can be traced in all highly industrialised countries. These cyclical fluctuations exert a most marked influence on the "unemployment percentage," which falls when trade is good, and shows a marked increase when depression sets in.

Other Factors.—Numerous other factors have to be considered, among which may be mentioned: (*a*) Deficiencies in industrial training, with the consequent tendency to an over-supply of unskilled labour; (*b*) exceptional dislocation, such as strikes or lock-outs in a principal industry; (*c*) the existence of a class of men who through personal deficiencies, whether of intelligence, physique or character, are substantially "unemployable"; (*d*) the existence of "blind alley" occupations; (*e*) the immobility of labour; and (*f*) the difficulty experienced by children leaving school in selecting employment.

The Relief of Unemployment.

In recent years the view has gained ground that unemployment is a pressing social problem involving national responsibility for its solution and relief. In this country a number of measures have been adopted in an endeavour to improve the position, and among these are: (*a*) The establishment of employment exchanges (see Chapter 50); (*b*) the undertaking of large schemes of development either by the Government or by local authorities, *e.g.*, the construction of new roads; (*c*) the development of *compulsory unemployment insurance* (see Chapter 50); (*d*) the training of the unskilled; (*e*) the working of organised short-time in certain industries.

Other remedies which have been suggested are: (*a*) the raising of the school leaving age, and (*b*) the enforced retirement of workers over a certain age.

BUSINESS FORECASTING

The Utility of Forecasting.

Business forecasting is by no means a new development, but its use as a possible means of reducing the effects of trade cycles has come to the fore only in recent years. Any business man must forecast even if he works to contract, since he must estimate future movements in the prices of his raw materials if he wants to buy at the lowest level. If he does not forecast, *i.e.*, if he buys materials as and when he needs them, he may

find that he has to pay prices which render his contracts unprofitable. Forecasting is even more necessary where, as is usual, a business man produces in anticipation of demand, for he must forecast sales and selling prices. Such forecasts are inevitable in almost every kind of business and are daily becoming more necessary. The new movement is in the direction of an attempt to put forecasting on a scientific basis and to forecast by reference to statistics of past history rather than by mere intuition.

General Forecasts applied to Individual Businesses.

Although cyclical fluctuations of trade in general may have little relation to the fluctuations of particular businesses, yet these general fluctuations cannot entirely be ignored by any business man. In forecasting the day's weather we may, to a certain extent, use our own judgment, but we should be foolish not to take into consideration the reports issued by the Air Ministry, for, whilst it is true that weather conditions vary within the rather large areas into which the country is divided by the meteorological authorities, and that their forecasts are sometimes wrong, nevertheless the forecasts are based on definite though incomplete knowledge and should not be ignored. In the same way forecasts of cyclical fluctuations in trade cannot be rigidly applied to particular businesses, but they are normally fairly accurate as to trade in general, and they must therefore be taken into consideration. This type of forecasting should be utilised primarily to *assist* intuition—which is, after all, based on some form of forecasting—and not to *replace* it.

Methods of Forecasting.

In forecasting for an individual business, four classes of fluctuations—secular, internal, seasonal and cyclical—should be taken into consideration. Particular account should be taken of the *seasonal trend* in the industry, *i.e.*, the normal fluctuations according to the season of the year which are suffered by all concerns in the trade, for these can be forecast with a fair degree of accuracy. In most trades the *secular* or *long-term trend* of each business should be a record of continuous progress, but in some industries it may be necessary to allow for a decline owing, possibly, to a change in fashion. The relative importance to be attached to estimates of the trend of *internal* fluctuations, *i.e.*, those which are peculiar to the individual business, due to factors such as changes in the personnel of the management removals and building operations, must, however, be decided by each business man for his own business, since these are questions depending entirely upon individual conditions.

In regard to *cyclical* fluctuations only the largest concerns

will find it profitable to employ a staff to keep complete statistics of such fluctuations peculiarly applicable to their own business. Many businesses make use of outside statistics such as are published by the State in the form of a Census of Production, or by financial journals (*cf.* the *Economist Index of Business Activity*, made up of a combination of indices), or by organisations like the London and Cambridge Economic Service, and the Exchange Telegraph Company.

The latter company issues to subscribers not only complete statistical information respecting some 5000 joint-stock companies, borrowing states and municipalities, but also up-to-date general information respecting the chief index numbers (Wholesale and Retail Prices, Production, Retail Trade, etc.), the Bankers' Clearing House figures, the Board of Trade Returns, the prices of the chief commodities, British and Canadian Business Statistics, Bank Balance Sheets, Railway Traffic, Stock Exchange Prices, Unemployment and Public Finance. This section alone provides information which it would normally require a large staff to collate, and is clearly of inestimable value to any first-class business concern.

Working with figures and information such as these as a basis the managers of a business can make allowance for individual factors influencing their own particular business. This must be purely a matter of judgment, although, needless to say, it will be a more accurate procedure if it is backed by accurate statistics of the results of the business in previous years. The value of reliable statistical records emphasises, of course, the importance of the statistical department of an up-to-date business house, but it is to be regretted that in this country the attention to this matter is by no means as complete or thorough as it should be, or as it is in certain other leading countries, notably the United States of America

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QUESTIONS BEARING ON CHAPTER 47

1. What are the causes of a financial crisis?

2. What are the chief theories which seek to explain the phenomenon of the trade cycle?

3. Explain what is meant by a "trade cycle," and give some account of its course.

4. What measures have been suggested as likely to modify business fluctuations?

5. Give some account of the unemployment problem.

6. Explain what is meant by business forecasting, and estimate the advantages which might accrue from its general adoption.

7. Two statements are frequently made with regard to unemployment, namely, that such is caused—(*a*) By over-production; and (*b*) By the general use of machinery. Give briefly your opinion of these two statements. (*A.I.C.A., Inter.*)

PART VII

COMMERCE AND THE STATE

CHAPTER 48

THE NECESSITY AND FORM OF STATE INTERFERENCE IN BUSINESS

THE modern State plays a most important part in the business of its people. Even in the earliest communities it was recognised that the provision of security and the upkeep of law and of order were functions which must be discharged for the benefit of the community generally and at the general expense of the members of that community. The classic definition of a State is "an association of human beings established for defence against external enemies and the maintenance of peaceable and orderly relations within the community itself." But as civilisation advanced it became necessary for the State to undertake far more than the mere maintenance of defence and the administration of justice. Government activity became increasingly necessary, and the functions assumed by the State gradually became far more diversified and much more costly.

Functions of the Modern State.

Clearly, the forms of activity of the modern State fall into one of two broad divisions: (1) those which are *essential*, and (2) those which are *optional* and subject to controversy. The *necessary* functions of the State are defined by J. S. Mill as those "which are either inseparable from the idea of a government or are exercised habitually and without objection by all governments." Such functions include the provision of defence, the framing of laws concerning property and contracts, the provision of a police force and judiciary system, and the raising of the revenue necessary for the discharge of these functions. Mill defines the *optional* activities of Government as those the exert cise of which "does not amount to necessity, and is a subjec- on which diversity of opinion does or may exist." Examples of such activities are interference with trade by tariffs or bounties, restriction of the activities of trusts and monopolies, regulation of the relation between employers and employees, and control of moneylending transactions by usury laws.

In regard to the so-called "optional State functions," Mill indicated four broad spheres in which Government interference might be justified: (a) where some individuals have undue power over others, as in the case of employers over unorganised labour; (b) where the consumer is not competent to judge a commodity or his own interests, as in the case of manufactured foods and the provision of education; (c) where private enterprise would be suitable but has failed to meet the requirements of the community, as in the case of canal and railway enterprises in some countries; (d) where State interference may be necessary to carry out the wishes of the parties concerned or to protect the interests of a class, as in the case of arbitration and of the protection of workers in certain "sweated" trades.

Although the necessity for some sort of State intervention in certain spheres of life is obvious, the possibility of its abuse must not be overlooked. Incompetence and ignorance on the part of administrators, the well-known defects of bureaucracy and officialdom, and the natural opposition of people in general to State interference with their natural freedom of thought and action, all indicate dangers to be avoided wherever possible. Much of the controversy is political rather than economic, and the reader may therefore accept the general principle that the criterion of State interference is whether it will ultimately be of benefit to the community, and that the justification for State expenditure is whether or not it will directly or indirectly develop the natural or human resources of the nation or, by leading to their more economical use, increase national prosperity by increasing the national wealth.

Productive State Expenditure.

According to this view any State functions which afford a definite economic service to the community, and which give a fair return on the capital invested, may be regarded as justifiable. Thus, State expenditure on railways or canals which would not be undertaken by private enterprise—either because of the magnitude of the undertaking, or because of the uncertainty of its success, or because the prospect of a low return to invested capital for a long period would not be attractive to the private investor—may be included in this class. In a similar category may be placed expenditure by the State on afforestation, such as is found in Switzerland, Canada and Britain; on harbours and roadsteads, as in most sea-girt countries; on the reclamation of land, as in Holland and Germany; and on the provision of wireless chains and wireless stations, which is now undertaken by most Governments.

Although not so obviously productive as the above, those activities of the State which are directed to the conservation and development of the *human resources* of the community, and which private enterprise could not be relied upon to under-

take, are considered equally justifiable. In this class may be included the provision of educational facilities, the establishment and upkeep of libraries and museums, the control of public health and sanitation, the regulation of working conditions in factories and the prohibition of the employment of women and children in harmful occupations. Control of this nature promotes the general physical and mental well-being of all members of the community, and in the long run adds to their general usefulness and productiveness.

Unproductive State Expenditure.

Although large amounts of public money are applied for purposes which are directly or indirectly productive, much greater sums are expended on functions which make no direct addition to material wealth and from which no return can be expected. The outstanding example of this, of course, is the expenditure of effort and wealth on armaments and war, but there are certain other classes of expenditure which cannot be regarded as directly economically productive, as, for example, Government expenditure on the administration of justice, on the care of the mentally deficient, and on old age pensions. These functions, however, tend to the greater well-being and security of the State, and they may, therefore, be economically justified by reason of the greater happiness and efficiency which they engender and the greater security they provide to enable production to be carried on.

Forms of State Activity.

The functions which may be undertaken by a modern State can be briefly classified under five main heads: (1) protective, (2) commercial, (3) developmental, (4) administrative, and (5) regulative.

1. PROTECTIVE.

(*a*) *Security from Foreign Nations*, involving the upkeep of the Army, Navy, Air Force, and Home Defence Service, and their relative Government Departments.

(*b*) *Internal Security.*—This includes the provision of police, the judiciary system and the Criminal Investigation Department.

(*c*) *Protection of the Poor and Unfortunate.*—Most modern governments recognise their obligation to extend relief to paupers, and to those who, owing to natural defects, are unable to hold their own in the struggle for existence. The problem of assisting such classes is receiving an increasing share of

attention from thoughtful people everywhere, and during recent years heavy expenditure under this head has been incurred in the provision of social insurance (unemployment and health insurance, widows, orphans and old age pensions, etc.) and the establishment of asylums for the unfortunate.

2. COMMERCIAL.
   (*a*) Construction and maintenance of roads, bridges, canals, river-ways, harbours and lighthouses.
   (*b*) The maintenance and development of the post office, telegraphs and railways; these are usually expected to be self-supporting or remunerative investments.
   (*c*) Provision of a currency and a system of weights and measures.
   (*d*) Consular service, and, to a less degree for commercial purposes, the diplomatic service.
   (*e*) Investigation and research (*e.g.*, by the Ministry of Agriculture).

3. SOCIAL AND DEVELOPMENTAL ACTIVITIES.
   (*a*) *Education.*—Expenditure on education has continually increased in all advanced communities, the expenditure being justified as a profitable investment by the increased productive power and the improved consuming strength of the people.
   (*b*) *Public Recreation, e.g.*, the provision of parks and playing fields.
   (*c*) *Public Health*, including provision of clinics, sanitation, etc.

4. ADMINISTRATIVE.—Under this head are included governmental functions of a too general and fundamental nature to be included in any of the above groups. Such are: (*a*) legislation and administration, and (*b*) tax-collection.

5. REGULATIVE.—In many branches of economic activity, the Government now exerts a controlling hand, either to prevent the abuse of power or to encourage the fullest use of economic resources. Factory Inspectors, the Official Receiver, and the Companies' Winding-up Department have for many years exercised such powers, but nowadays the Government goes much further, as by setting up Agricultural Marketing Schemes, by subjecting road carriers to a licensing scheme, and by instituting a quota scheme

in the Coal Industry. These developments provide ample evidence of the tendency for the Government to intervene in economic relationships whenever it appears to be desirable in the national interest, as where excessive competition is leading to waste, or where the inherent antagonism of private producers prevents them from co-operating to achieve desirable economies.

How Business is Aided by the State.

An important way in which the State facilitates economic activity is by the institution and enforcement of statutes relating to contract, without which business would be unsatisfactory and insecure. State regulation of the principles of contract law is essential to business progress, and, as society advances, extensions, alterations and codifications of that law become necessary to keep pace with changes in the nature and volume of business. The rights and liabilities of parties to contracts of all kinds must be subject to definite rules. Thus, in certain circumstances the State may refuse to enforce contracts which are not drawn up in the requisite form or which are considered to be detrimental to the general interests of the community.

From a business standpoint, the laws which govern the constitution and liability of various forms of business organisation, such as partnerships, companies, trusts, trade unions, professional bodies and friendly societies, are of extreme importance. For example, the transaction of business by and with a company is greatly facilitated by a legal definition of the liabilities of its promoters, directors and shareholders, while the community in general benefits from laws giving greater publicity to the financial position of large companies. In the same class are laws relating to bankruptcy and insolvency, protecting the creditor against fraud and dishonesty on the one hand, and, on the other, giving the debtor an opportunity of making a fresh start in life. Similarly, the laws concerning patents, trademarks and copyright, and those providing for arbitration in industrial disputes are essential to the smooth working of the economic machine.

In a more direct way the State facilitates economic activity by undertaking the valuable work of collecting and compiling economic statistics and publishing reports on industrial and commercial conditions at home and abroad; by appointing commissions to enquire into industrial questions, and by promoting exhibitions at home and missions abroad for the furtherance of trade. In most countries the State now undertakes research and investigation with the object of promoting national industries. This is exemplified in this country by the

Ministry of Agriculture and Fisheries, constituted in 1919, and the Development Commission, founded in 1910, to undertake research and experiment and to render financial assistance for the development of agriculture, fisheries, forestry, rural transport and canal and river navigation. The aim is to assist and extend private enterprise by proving the potentialities of both old and new industries. The work of the agricultural experimental stations is self-advertising; to these is due the establishment in this country of the beet sugar industry, of the cultivation of flax, and the realisation by British farmers of the advantages of crop rotation, artificial manures and scientific breeding of cattle and sheep. The Development Commission is responsible also for various afforestation and reclamation schemes and for the encouragement of co-operation among small farmers.

Direct Forms of State Interference with Business.

Besides the State activities which have been described above, there are others whose effect is more *direct*, and in some cases more *specific* (*i.e.*, applied to particular forms of activity). Perhaps the most important of these is *Protection*, with its allied principles, *reciprocity*, *retaliation* and *preference*. This form of State activity may have considerable influence on the direction of trade within a community, and may seriously affect its economic and political relationships with other nations. A still more direct form of encouragement is that given in the form of *bounties* or *subsidies* to certain industries or in respect of certain products. Bounties and subsidies are specific in their nature; they provide direct encouragement by means of an actual payment to the organisations concerned. The State may also guarantee interest on the capital invested in an industry, as in the case of the manufacture of aircraft during and since the Great War, or may grant loans at low rates of interest.

State interference of such a direct nature is mainly objected to on the ground that the subsidising of certain industries may result in the creation of vested interests and the establishment of industries which may never become self-supporting and which may need State assistance for an indefinite period. Furthermore, the supporting of certain industries, while others are left unassisted by the State, is on the face of it illogical and unfair.

The Regulation of Economic Activity by the State.

The most notable instances of State regulation exist in the shape of *Factory Legislation*, directed to secure for the workers reasonable hours and conditions of employment, satisfactory sanitary and ventilation arrangements, safeguards against accidents, and restrictions on the exploitation of hired women and children. Of more recent date are the organisation of Trade Boards and

the establishment of minimum rates of wages. Such measures have resulted in the raising of the general standard and efficiency of the workers, and have served to safeguard them from inhuman treatment by unscrupulous employers.

Other ways in which the State intervenes to protect the interests of the economically weak include regulations for the safety of ships and of their crews, State schemes for the compulsory insurance of workers against sickness, unemployment, old age and death, and the enforcement of compensation for workmen who are accidentally injured.

State and local authority regulations exist also for protecting the interests of consumers—in some cases by actual control of the policy and working of private enterprise. In this category are included the various forms of social monopoly, such as railways and tramways, and the postal services. Competition in the supply of these services is undesirable and frequently impossible. Moreover, the charges for such essential services must be kept within reasonable limits to prevent consumers generally from being exploited.

More general State regulations which protect the consumer are those which provide for the safety of railways, tramways and bridges; for the control of drugs, adulterated foods, explosives and intoxicants; for the periodical inspection of weights and measures; and for the enforcement of a proper standard of qualification in such important professions as medicine and the law. A striking example of State intervention in economic matters is given by the system of rationing supplies of food and material during a war period.

State Ownership of the Industrial Machine—Nationalisation.

State and municipal control has hitherto been confined in industry to: (*a*) such services as private enterprise cannot, because of their unremunerative nature, be expected to supply; (*b*) enterprises of a monopolistic character in which regulation is so difficult as to necessitate complete control; and (*c*) enterprises which are essential to the defence of the community (*e.g.*, the production of armaments).

The first class is exemplified by afforestation, reclamation of land, road-making, bridge-building, the supply of water to towns, and, in certain areas, the provision of railways and canals. The second class includes gas and electricity undertakings, which, although sometimes conducted by private enterprise, are now chiefly in the hands of municipalities, and transport undertakings, such as municipal tramway and bus services.

Generally speaking, these services are conducted efficiently and productively, although it is a subject of controversy as to whether the undertakings would be more efficient if conducted as private concerns. It would seem that State activity

in these directions should be extended only after a careful consideration of the disadvantages springing from Government control, such as the general slowness of action characteristic of public administration (commonly known as "red-tape"), and the inefficiency which results from the absence of competition and the lack of monetary incentive. State control of essential and productive undertakings is undoubtedly justified when private enterprise would not be forthcoming, but whether the State should assume functions which private enterprise, under suitable regulation, can effectively discharge is a question which cannot be answered by any generalisation.

The Public Utility Corporation.

The widespread antagonism to nationalisation of productive enterprises, *i.e.*, public ownership under the control and direction of a Government Department, has been responsible for the emergence of a type of control that is midway between complete private ownership and control and complete State ownership and control, namely, the public utility corporation. The State takes the ownership and control of the enterprise out of private hands and vests them, not in a Government Department, as would be the case under nationalisation, but in a Board or Corporation established by Statute or Charter. The capital may be supplied by the public, in which case the interest on it is restricted, or the corporation may be supplied with grants by the government, in which case the question of interest payment does not arise. The corporation also receives revenue in the form of charges for the services it supplies.

The Board controlling the enterprise is composed of persons nominated by the Government, either directly or indirectly. These persons usually have specialised knowledge and experience in relation to the enterprise or are representatives of the various interests affected, *e.g.*, labour and consumers. They are appointed usually for a term of years and, once so appointed, their tenure of office and their policy are not dependent on the politics of the party in power. The Port of London Authority, the Central Electricity Board, the British Broadcasting Corporation and the London Passenger Transport Board are all public utility corporations.

It is claimed that the disadvantages of nationalisation are avoided in this way. The day-to-day working of the industry is not controlled by a Government Department and its employees are not Civil Servants. As a result, its regulation is more flexible, "red-tape" and the degree of direct political control are reduced. The members of the Board need not concern themselves with the wishes of the party in power at any time, but can concentrate on methods of rendering the best service to the community compatible with their powers. Defects in the original regulations, revealed by experience, can be remedied by

modifications in the Charter as it comes up periodically for renewal, or by Amendment Acts, where the Board is established by Statute.

In favour of the Public Board, it is further argued that it must keep its costs of administration down to a level that will be covered by the grants from the Government and the sums it receives as charges for its services. It cannot ask the Government to make good its deficits out of general taxation, as would be the case were it a nationalised industry. Any such demand would lead to investigations into its operations and there would be a drive to eliminate waste and inefficiency. Conversely, if the Board earned a surplus, it would not be appropriated by the Government for the relief of general taxation. Such a surplus would be available either for reducing charges or for improving service.

It seems that, in the future, public control of industry will develop on these lines, rather than by way of outright nationalisation. Many hitherto staunch advocates of nationalisation have, indeed, come to hold the view that public utility control is superior. Many, however, argue that the public should not hold interest-bearing stockin the Boards, for this means that charges have to be fixed so as to allow this interest to be paid.

QUESTIONS BEARING ON CHAPTER 48

1. Under what conditions is State intervention justified in the economic life of the nation ?

2. How would you classify the activities of government in a modern state ?

3. In what way does the State assist commerce and industry ?

4. What are the limits to a policy of *laissez-faire* ? How are the evils obviated in this country ?

5. Discuss the advantages of State interference in business.

6. To what extent has collectivism developed in this country ?

7. Consider the advantages and disadvantages which would accrue from the State ownership of the commercial machine.

8. Distinguish between productive and unproductive State expenditure.

CHAPTER 49

INSOLVENCY

Throughout this book the commercial machine has been described as it is when running smoothly. Like all machines, however, it is liable sometimes to break down, and, for this reason, legal means have had to be provided whereby a trading unit which is unable to fulfil its obligations can be removed altogether, or granted a sufficient measure of relief to enable it to resume business with some hope of success. To this end the individual trader and the partnership are subject to the laws of Bankruptcy, whilst the joint-stock company is governed by the sections of the Companies Act which deal with Liquidation.

The first signs which the commercial community receives of a trader's actual or impending insolvency are usually a dilatoriness in the payment of accounts and repeated requests for extended accommodation. An efficient concern never allows these signs emanating from any of its clients to pass unnoticed, and, as a precautionary measure, it will make careful enquiries—through a bank or an enquiry agency—as to the position of the defaulting concern. Very often such enquiries reveal that the firm in question has already achieved the unenviable distinction of having been posted in the trade "black list." It must not be imagined that any such list exists in fact. The "black list" is a metaphorical manner of referring to those firms in whom the trade has lost confidence. Of course, there is nothing to prevent a business man from preparing such a list for his own use, and, in fact, many up-to-date concerns do maintain a record of business houses which are considered shaky. For this purpose the financial notices appearing in trade journals are of great use.

Assuming, then, that a customer fails to meet his obligations as they fall due, there are two alternatives open to the creditor. He may either place the matter in the hands of a debt-collecting bureau, which specialises in such matters (sometimes the debt may actually be sold for what it is worth and the balance written off), or he may place the matter in the hands of his solicitors. The latter will take whatever steps are necessary, resorting, if desirable, to the Courts to obtain settlement. Very often legal action will result in payment being made, but in other cases the delinquent debtor will acknowledge his inability to meet his

debts and will be forced into bankruptcy or (in the case of a company) into liquidation.

BANKRUPTCY

The law of bankruptcy in this country is founded on the idea that if a person becomes so hopelessly involved that it is unlikely he will ever be able to meet his obligations it is best for all concerned that, subject to certain conditions, he should be extricated from his position and left free to start again by being relieved of his outstanding debts. On the other hand, the debtor's creditors are protected in so far as any assets of which he may be possessed are distributed equitably amongst them.

Needless to say, this principle could not be applied in its rough form, for that would leave the matter open to abuse: it has therefore been necessary to evolve a complete code governing the manner in which the extrication should be accomplished.

The principal Act of Parliament governing bankruptcy proceedings is the *Bankruptcy Act*, 1914, as amended by the Act of 1926; but some of the provisions of former Acts, *e.g.*, the *Bankruptcy Act*, 1883, are still in force.

If the debtor has resided or carried on business in the London district for the greater part of the six months preceding the commencement of insolvency proceedings, or, if he resides abroad, or, if his address is unknown, the bankruptcy is administered by the High Court; otherwise the County Court having bankruptcy jurisdiction in the district where the debtor has lived or carried on business during that period, is responsible.

Acts of Bankruptcy.

Proceedings in bankruptcy cannot be commenced until the insolvent debtor has committed an *Act of Bankruptcy*, which he does in any of the following circumstances:—

(*a*) If he makes a conveyance or assignment of his property to a trustee for the benefit of his creditors generally. A petition cannot, in general, be based on this act by a creditor who has assented to the conveyance.

(*b*) If he makes a fraudulent conveyance or transfer of his property, or of any part thereof.

(*c*) If he makes any conveyance or transfer of his property, or any part thereof, or creates any charge thereon which would be void as a fraudulent preference if he were adjudged bankrupt.

(*d*) If, with intent to defeat or delay his creditors, he departs out of England, or being out of England remains out of England, or departs from his dwelling-house, or otherwise absents himself or begins to "keep

house" (*i.e.*, shuts himself indoors and makes himself inaccessible).

(*e*) If execution against him has been levied by seizure of his goods, and the goods have been either sold or held by the sheriff for twenty-one days.

(*f*) If he files in the Court a declaration of his inability to pay his debts, or presents a bankruptcy petition against himself (see below).

(*g*) If a creditor has served on him a bankruptcy notice[1] under the Act, and he does not, within seven days, either comply with the requirements of the notice, or satisfy the Court that he has a counter-claim which equals or exceeds the amount of the judgment debt, and which he could not have set up in the proceedings which led to the judgment or order on which the bankruptcy notice was based.

(*h*) If the debtor gives notice to any of his creditors that he has suspended or is about to suspend payment of his debts.

In actual business the seventh (*g*) is probably the most common act.

Bankruptcy Petition.

Once a debtor has committed any of these acts, a creditor may take proceedings to have him declared bankrupt. The first step is the filing of a *Bankruptcy Petition* founded on the act of Bankruptcy which is complained of. The petition is presented to the relevant Court (see page 771) by a creditor or creditors, or by the debtor himself, and asks that a *Receiving Order* be made. The following conditions must be fulfilled before a petition may be filed:—

(*a*) The debt due to the petitioning creditor (or to two or more creditors if the petition is presented jointly) must amount to £50 at least (but a bankruptcy notice may be issued in respect of any amount).

(*b*) The debt must be an ascertained or liquidated sum, payable immediately or at a certain future date.

(*c*) The act of bankruptcy relied upon must have been committed within three months previous to the presentation of the petition.

(*d*) The debtor must be subject to the bankruptcy laws of England.

The petition must be verified by affidavit and a copy must be served on the debtor. After an interval of not less than eight

[1] A Bankruptcy Notice is one issued out of Court and served upon a judgment debtor by the judgment creditor, requiring the former to pay the debt in accordance with the terms of the judgment or to secure or compound for it to the satisfaction of the creditor or of the Court, and stating the consequences of non-compliance.

days from the date of the service the Court will hear the petition, and at the hearing will require proof of the existence of the debt, of the service of the petition and of the act of bankruptcy. It will then make a receiving order or dismiss the petition, as it thinks fit. Once presented, a petition can be withdrawn only by leave of the Court.

Receiving Order (R/O).

When the Court makes a Receiving Order, a copy is served on the debtor and notice thereof is published in the *London Gazette.* The effect of the receiving order is to constitute the Official Receiver (a permanent official of the Board of Trade—known as the *O/R*) the receiver of the debtor's property. Immediately the order is made, all legal processes against the debtor or against his property are automatically stayed. The Official Receiver takes charge of the proceedings and acts as temporary trustee for the creditors.

Statement of Affairs.

When a receiving order is made against a debtor he is saddled with certain responsibilities, the first of which is the preparation of a *Statement of Affairs.* This must be verified by affidavit and must be filed within seven days of the R/O (three days if the debtor presented the petition himself). The statement must contain the following particulars :—

(1) A statement of his assets and liabilities, showing the amount of his deficiency.
(2) The names, addresses and occupations of his creditors, showing the amount due to each and the security held (if any).
(3) An account showing how the deficit has been produced.

Any creditor may inspect the statement and make copies or extracts therefrom.

Examination of the Debtor.

The debtor has to undergo two examinations. The first, the *private* examination, is conducted by an examiner in bankruptcy who cross-examines the debtor with the object of ascertaining whether the bankruptcy is due to any misconduct on his part. This examination takes place shortly after the receiving order has been made. The second is the *public* examination. This is held in open Court and takes place as soon as possible after the expiration of the time for presenting the statement of affairs. At this examination the debtor is interrogated concerning his conduct, the causes of his insolvency and the state of his assets, and must answer all relevant questions which may be put to him. Those present include the official receiver, the trustee (if one has

been appointed) and any creditors who have proved their debts or their representatives. Any of these persons may question the debtor.

Composition or Scheme of Arrangement.

At any time after the receiving order and within four days of delivery of his statement, the debtor may submit proposals for a *Composition* in satisfaction of his debts (*i.e.*, the offer of so much in the £) or a *Scheme of Arrangement* of his affairs. Such a scheme or composition will be considered by the creditors at their first "meeting" (see below), or at a meeting called for the purpose, and, if adopted by a majority in number representing three-fourths in value of creditors who have proved their debts, it will go up for consideration by the Court. The O/R will report to the Court upon the conduct of the debtor and upon the proposed scheme. If the Court sanctions the scheme, it becomes binding upon all the creditors; and, if the debtor carries out his promises, he is released from all further liability.

Deeds of Arrangement.

A Deed of Arrangement, which must be carefully distinguished from a Scheme of Arrangement, may be made in any of the forms specified in Section 1 (2) of the *Deeds of Arrangement Act*, 1914. If such an instrument is:

(*a*) For the benefit of creditors generally; or
(*b*) For the benefit of three or more creditors of an insolvent debtor,

it must be *registered* as a Deed of Arrangement and must receive the assent of a majority in number and value of the creditors intended to benefit. The deed is not, however, binding on creditors who do not assent.

A deed of arrangement will be void for want of registration, for want of assent of a majority of creditors, or upon the making of a receiving order upon a petition presented within three months after the execution of the deed.

Usually, the Deed conveys the whole of the bankrupt's business property to a trustee for administration on behalf of his creditors. The trustee is not in such a strong position as a trustee in bankruptcy, but provided he takes care to get the consent of all the creditors he can fairly safely administer the property.

The object of a Deed of Arrangement is to give the creditors the benefit of the debtor's property without the publicity, formality and delay involved in bankruptcy proceedings. The former procedure is also more elastic and does not stigmatise the debtor so seriously as does bankruptcy.

Meetings of Creditors.

In order that the bankruptcy may be conducted with the full knowledge and consent of the creditors, meetings of the latter are held from time to time. The first meeting of creditors is held within fourteen days after the date of the receiving order, and the debtor must attend to give information. Seven days' notice of the meeting is given in the *London Gazette* and in a local paper. The official receiver calls the meeting and presides, but at any subsequent meeting the creditors choose their own chairman. At the first meeting all creditors may attend, but no person is entitled to vote unless he has proved his debt, and the proof has been duly lodged.

The creditors may decide at this meeting to accept a *Scheme* or *Composition*, or they may resolve that the debtor be adjudged bankrupt by the Court. In the latter case the Court will adjudge the debtor bankrupt, and in any case it will do this if it cannot approve the scheme of composition (if any) or if the creditors at their first meeting pass no resolution at all. If the creditors resolve on adjudication they may elect a *Trustee* and a *Committee of Inspection.*

Subsequent meetings may be arranged if necessary, but very often the first is the only one.

Adjudication Order.

So far the debtor has not been judicially declared bankrupt, but after the first meeting a new phase begins. The debtor will be adjudged bankrupt by the Court in five cases : (*a*) where the creditors resolve that he shall be so adjudged ; (*b*) where they pass no resolution ; (*c*) where they hold no meeting ; (*d*) where the debtor fails to give a proper account of his affairs ; (*e*) where a scheme of arrangement or of composition falls through.

The effect of the Court's order of adjudication is to constitute the debtor a bankrupt, depriving him of his property and vesting it in the hands of a *Trustee in Bankruptcy* who must be appointed for this purpose.

The Official Receiver.

Pending the appointment of the trustee the Official Receiver will act as trustee. His duties are many and varied. He must act as trustee not only pending the appointment of the latter but also during any vacancy in the office. He has to preside at the first meeting of creditors and to conduct the debtor's public examination. It is his duty, too, to maintain a careful supervision over the bankruptcy proceedings, and to see that proper accounts are kept. Further, he must arrange for the publication and circularisation of notices and must keep the creditors informed of any proposals of the debtor. Finally, he must, if necessary, institute criminal proceedings against the bankrupt if the latter has committed any offence.

The Trustee in Bankruptcy.

The trustee is usually appointed by the creditors, or by a committee of them, subject to the approval of the Board of Trade. Before he can take up his position his appointment must be confirmed by the Board of Trade, which will require him to give security. His remuneration is generally fixed by the creditors, and must take the form of a commission based upon: (i) the amount realised by the trustee himself, and (ii) the amount distributed in dividend. Usually the trustee is a professional accountant.

The duties of the trustee are to realise the assets as rapidly and profitably as possible, to keep accounts of all his transactions and to distribute the proceeds among the creditors according to their rights. In all matters he must endeavour to carry out the wishes of the creditors and must obey the instructions of the Board of Trade.

The trustee may be assisted, in some cases, by a *Committee of Inspection*, elected by the creditors from among themselves, and he must then be guided throughout by their decision.

Sometimes the creditors request the Official Receiver to appoint a *Special Manager* to carry on the debtor's business. Like the trustee, he must give security as directed by the Board of Trade and must keep proper accounts.

Proof of Debts.

To share in the distribution of the bankrupt's property a creditor must "prove" his debt. This he does by furnishing the trustee with proof of the existence of the debt, verified by affidavit, whereupon the trustee may either accept the proof or reject it. In the latter case the presumptive creditor may apply to the Court for revision of the trustee's decision. A creditor may prove for "all debts and liabilities, present or future, certain or contingent, to which the debtor is subject at the date of the receiving order, or to which he may become subject before his discharge by reason of any obligation incurred before the date of the receiving order."

In making his proof the creditor may claim interest up to the date of the receiving order if the debtor has agreed to pay such interest. But not more than 5 per cent. can rank for dividend till all creditors have been paid in full. But apart from interest arising out of a special contract with the debtor, 4 per cent. to the date of the receiving order is allowed on judgments, money paid by a surety, and money due under an award: the same rate is allowed if the debt be due on a written instrument which is overdue, or if written notice has been given of the intention to charge interest after a certain date. Bills of exchange carry interest at 5 per cent.

Distribution of Assets.

As and when the trustee realises the property or so much as is readily realisable, he proceeds to distribute the proceeds by payment of dividends to the creditors of so much in the £. Before he distributes any of the proceeds to ordinary creditors, however, he must cover his expenses and pay off in full the claims of *preferred creditors.*

The order of the distribution of the assets is therefore as follows :—

(1) The expenses connected with the bankruptcy proceedings.

(2) Pre-preferential debts, *e.g.*, the unexpired portion of an apprentice's premium.

(3) Preferential debts—

- (*a*) Rates due and payable within twelve months prior to the receiving order, and taxes not exceeding in the whole one year's assessment.
- (*b*) Clerks' and servants' wages for four months, not exceeding £50.
- (*c*) Workmen's wages for two months, not exceeding £25.
- (*d*) Workmen's compensation payments to any amount.
- (*e*) Contributions under National Insurance Acts.

(4) Unsecured creditors, in proportion to the amount of their debts.

(5) Deferred creditors (including, for example, the claims of the bankrupt's wife or husband, as the case may be, for money lent for use in the business).

Secured Creditors.

A secured creditor is one whose debt is secured by a mortgage, charge or lien on some part of the bankrupt's property. In proving his debt he has four courses open to him. He may rely on his security and not prove at all ; or he may realise the security and prove for the balance of his debt ; or he may surrender his security and prove for the whole debt ; or he may value his security in his proof and prove for the balance of his debt. Where, however, a creditor of the bankrupt has received security in the form of a charge on the assets of some person *other than the bankrupt*, he may prove for the whole of his debt and need not deduct the value of his security.

Discharge of Bankrupt.

A person who has been adjudged bankrupt and has not yet been granted his discharge is known as an *Undischarged Bankrupt* and is subject to certain restrictions. Thus he is guilty of

a misdemeanour if he obtains credit, either alone or jointly, to the extent of £10 or more, without disclosing the fact that he is an undischarged bankrupt. Moreover, it is an offence for him to trade in a name other than that under which he was adjudicated, unless he first discloses the fact that he has been adjudicated and reveals the name under which the adjudication was made.

It is obvious, therefore, that a bankrupt's prime object must be to obtain his *discharge*, releasing him from his liabilities. This can be obtained by application made to the Court at any time, but the application cannot be heard until after the conclusion of the public examination for an order of discharge. Fourteen days' notice must be given to all the creditors who have proved in the bankruptcy, and the application for discharge may be opposed by any creditor, or by the trustee, or by the Official Receiver.

There are four kinds of discharge: (*a*) *conditional, i.e.*, subject to certain conditions, in which case, if the debtor fails to fulfil the conditions, it may be revoked; (*b*) *suspensive, i.e.*, after a fixed time; (*c*) conditional and suspensive; (*d*) immediate.

The order for a debtor's discharge may be refused by the Court in certain circumstances, and in others may be suspended for a fixed period or until the bankrupt has paid a dividend of 10*s*. in the £, or it may be granted subject to the debtor's consenting to judgment being entered against him for any part of his unpaid provable debts.

There are, however, certain debts provable in bankruptcy from which a debtor is not discharged unless the Court orders otherwise, *e.g.*, judgment debts in an action for seduction, in affiliation proceedings, or in a matrimonial cause.

Generally speaking, it may be said that a discharge will be refused only when the bankrupt has committed a bankruptcy offence. Certain of those offences, such as concealment of assets or falsification of books, are criminal and are punishable by imprisonment; others, such as failure to account for assets, are not criminal but result in refusal of a discharge. The most common offence, and one of which many business men are guilty, is failure to keep proper books of account.

Bankruptcy of Partnership.

When a partnership becomes bankrupt proceedings may be taken against the firm, and each partner must file a separate statement in addition to the statement of the firm. The partners are adjudicated singly, since the firm is not a legal entity. See page 59 for the rules as to the administration of the estates.

When an individual partner is adjudicated this does not mean

that his firm must be made bankrupt, but merely that his share of the partnership property must be handed over to his trustee. On the other hand, when the firm goes bankrupt *all* the partners (other than limited partners) necessarily become bankrupt.

WINDING-UP

We have considered how the insolvent individual can be relieved of his liabilities when he is overwhelmed. Similar procedure applies in the case of joint-stock companies. In Chapter 8 it was pointed out that a company could be wound up compulsorily by the Court when it was deemed unable to pay its debts. This is parallel to bankruptcy. In place of the trustee, the *Liquidator* acts on behalf of the creditors. Of course, no public examination of a company can take place, but the Court may examine any director, promoter, etc., of a company where there appears to have been fraud. In compulsory liquidation proceedings, a *Winding-up Order* takes the place of a Receiving Order, and in place of Discharge there is an *Order for the Dissolution* of the company. Slight complications are involved by the necessity, sometimes, of making *calls* on the shareholders for capital not yet paid-up, and by the fact that any surplus must be distributed among shareholders, whose rights *inter se* must be adjusted. In broad principles, however, Liquidation is similar to Bankruptcy and it is unnecessary to consider it in greater detail here.

QUESTIONS BEARING ON CHAPTER 49

1. Under what restrictions is an Undischarged Bankrupt placed? (*I.C.P.A., Inter*)

2. State the circumstances, if any, in which a married woman may be made bankrupt. (*A.I.C.A., Inter.*)

3. Unless a debtor presents his own petition he cannot be made bankrupt until it has been shown that he has committed an Act of Bankruptcy. Name the "Acts of Bankruptcy." (*S.A.A., Final.*)

4. Distinguish between the meaning and effect of a "Receiving Order" and a "Bankruptcy Petition."

5. What is a "Statement of Affairs"?

6. Explain the functions of a "Committee of Inspection" and of a "Trustee in Bankruptcy."

7. Is any distinction made as between the various classes of creditors of a bankrupt?

8. What happens when a partnership or a limited company is not able to pay its debts?

9. Enumerate the criminal offences under the Bankruptcy Laws. (*C.A., Inter.*)

CHAPTER 50

SAFEGUARDING THE WORKER

FACTORY LEGISLATION

THE Industrial Revolution resulted in the downfall of the "domestic" system and the growth of great industries in which many workers came to be employed in large factories. The decline of home industries brought about a migration of population to the large towns to obtain employment, and this, together with the increasing use of machinery which economised labour power, resulted in a surplus of urban workers. Moreover, the new machines could be worked by women and children who were cheaper to employ than men. These conditions considerably strengthened the position of the employers since, if any of their employees became dissatisfied with the existing conditions, there were many others who would be pleased to take their places. Further, if for any reason labour were difficult to secure, pauper apprentices could be obtained. The absence of any sort of united action on the part of the workers, together with the fact that the State was unwilling to interfere, caused the employers to take full toll of their employees' weak position. Hence, conditions of work were scandalously bad, hours of labour were extremely long and wages were very low.

During the latter part of the eighteenth and the early years of the nineteenth centuries it was gradually realised that the State could not hold itself aloof from this struggle between master and man—a struggle in which the odds were overwhelmingly in favour of the master. Current opinion was averse to any form of organised labour, but the Government was impelled by contemporary humanitarians to interfere with the absolute freedom of the employers and at last came to the assistance of the unhappy creatures in the factories and mines.

The Net Result of Legislation up to 1850.

Up to 1850, legislation had dealt only with textile factories and had been mainly the result of individual action on the part of philanthropists, notably Lord Ashley, afterwards Earl of Shaftesbury. Nevertheless, the Acts passed during the first half of the nineteenth century had brought about improvements in the conditions and hours of work, and had secured the

abolition of child labour, the introduction of the "half-timer," a normal working day for all, and the enforcement of legislation by inspection.

The Government had realised that the old principle of "*laissez-faire*" in industry could no longer be its policy. The Industrial Revolution had brought with it problems which could be solved only by State intervention.

Extension of Legislation to Non-Textile Industries.

The principle of Government regulation was greatly extended by the Act of 1864 which covered pottery, match-making and several other industries of a dangerous nature. The Act was the direct result of a Commission appointed in 1862 to enquire into conditions of labour not already regulated by law. In all cases covered by the new Act, the reasons for State intervention were the employment of children at an early age, long hours of labour, and unhealthy and dangerous conditions of work. The Act of 1864 was the first to apply to home workers, the definition of a factory under the earlier Acts being extended to include "any place where people work for hire." Even this Act, however, did not bring under control children working for their parents.

Classification of Factories.

The Factory Acts at this period applied only where motive power was used, and only if there were more than fifty workers, *including* some women, young persons or children. Evasion was fairly common, since it was easy to hide the fact that women were employed or to state wrongly the total number of employees, whilst large employers complained of unfair discrimination against them. Hence, in 1867, two further Acts were passed—the *Factories Extension Act*, extending the operation of existing Factories Acts to more trades, and the *Workshops Regulation Act*, giving local authorities power to control conditions in workshops. The latter Act was purely permissive and was not generally applied, largely because the local authorities at this time were controlled by the middle classes, which naturally sympathised with the employers.

The stage had now been reached when there were three groups of regulations relating respectively to workshops, non-textile factories and textile factories.

Factory and Workshops Act, 1878.

So far, much confusion existed as a result of dealing with the industries of the country separately, and in 1876 a Consolidated Commission was appointed to remove some of the discrepancies. Its efforts resulted in the passing of the *Factory and Workshops Act*, 1878, which, by defining a factory as

"any place where mechanical power was used," brought workshops into line with factories, save that where no children or young persons were employed, the $10\frac{1}{2}$ hours for which women could be employed could be spread over the period 6 a.m. to 9 p.m.

The Act of 1878 was extended generally by the Act of 1891, which also increased the powers of factory inspectors.

Factory Code, 1901.

Legislation had so far been largely individualistic, and the policy had been to uphold the general principle of freedom of enterprise except when specific evils demanded interference. Thus, various minor Acts were passed to tighten up the legislation regarding sanitation and the protection of machinery. Public opinion at the end of the century, however, was coming to regard the worker's standard of living and conditions of labour as a national question, within the sphere of Parliamentary control.

The 1901 Act effected a second consolidation and, whilst retaining the grouping by age and nature of work-place, introduced a vast code covering all these classes, specifying normal and exceptional working days and maximum spells, regulating night work and providing for efficient lighting, etc. Still more important were the provisions for the appointment of many more inspectors, both men and women.

The Factories Act, 1937.

In spite of the provisions of these two Acts, factory legislation remained extremely unsatisfactory until 1937, though certain Acts were passed after 1901 to deal with conditions in specific industries. *The Factories Act* of 1937 consolidates and amends all previous legislation. It is of a comprehensive and extensive nature and only some of its most important features can be mentioned here. It provides that steps must be taken to ensure adequate cleanliness, heating, lighting, absence of overcrowding and removal of dust and fumes in factories; machinery must be securely fenced, and all fencing must be of substantial construction and constantly kept in position when the machinery is in use; women and young persons must not clean moving machinery if such cleaning exposes them to the risk of injury; and boilers, hoists and lifts must be of good construction and periodically examined. Factories must be certified by the local councils as being provided with reasonable means of escape for the workers in case of fire, and one first-aid box or cupboard containing proper appliances must be kept in a factory for every 150 persons employed. Regulations are laid down for the hours of employment of women and young persons covering total hours worked per day and per week, the periods within which work takes place, rest periods and meal periods, and overtime.

The Act represents a great advance upon that of 1901, but there is still room for further improvement. It is hoped that employers will regard its provisions as setting a minimum standard beyond which they should go without the compulsion of legislation. Fully satisfactory factory legislation is still a long way off.

Nevertheless, factory conditions as a whole have considerably improved. Government inspectors have insisted on the observance of regulations, while legislation in other directions has greatly improved the lot of the worker. The raising of the school-leaving age by the Education Acts has automatically prevented the employment of children under the prescribed age, while the Workmen's Compensation Acts have made it expedient for employers to take reasonable precautions to protect their employees against injury whilst at work. Sweating has been abolished by the institution of Trade Boards, and these, together with National Insurance, have done much to provide the worker with both security and a decent standard of living.

THE TRADE BOARD SYSTEM

The History of Trade Boards.

The origin of Trade Boards is found in a movement which arose in the last quarter of the nineteenth century, having as its object the removal of the evils of "sweating" in industries untouched by the Factory Acts. The movement was based largely on the Fifth Report of the Select Committee of the House of Commons on the Sweating System, published in 1888, which revealed the inadequacy of wages, the inordinate length of hours and the insanitary conditions existing in certain trades, especially tailoring, shirt-making, lace-making, cardboard box-making and boot-making. The Anti-Sweating League sought to secure better conditions through the medium of minimum wage legislation, already growing in the Dominions.

The Trade Boards Act, 1909.

A direct outcome of this agitation was the Act of 1909, which was limited to certain specified trades of the "sweated" type, namely: (*a*) ready-made and wholesale bespoke tailoring, and any other branch of tailoring in which the Board of Trade considered that the system of manufacture was generally similar to that of the wholesale trade; (*b*) the manufacture of boxes; (*c*) machine-made lace and net finishing; and (*d*) chain-making.

The Board of Trade was, however, given power by a Provisional Order, subsequently confirmed by Parliament, to

extend the application of the Act to any trade, " if it is satisfied that the rate of wages prevailing in any branch of the trade is exceptionally low, as compared with that in other employments, and that the other circumstances of the trade are such as to render the application of this Act to the trade expedient."

The Trade Boards Act, 1918.

Under this Act certain modifications to the provisions of the Act of 1909 were introduced, but the main principles remained unchanged. The chief changes were the transfer of the powers of the Board of Trade to the Ministry of Labour, which was also empowered to extend the application of the Act by a special order without confirmation by Act of Parliament; for this purpose it is sufficient for the Ministry to show the absence of " adequate machinery for the effective regulation of wages," and it is no longer necessary to show that exceptionally low rates exist. Power was also given to the Boards to fix guaranteed time-rates, *i.e.*, minimum time-rates for piece-workers and overtime rates.

Constitution and Functions of Trade Boards.

The Ministry of Labour sets up in each industry concerned a *Trade Board*, which consists of equal numbers of representatives of employers and employed and of " Appointed Members," who are selected by the Ministry. The number of appointed members, though varying, must be an odd number—usually three or five—and at least one of these must be a woman if there are any women employees in the industry. These members are really only conciliators, and it is their function to keep the bargaining process going and prevent a breakdown in the discussion ; they usually vote only when a deadlock occurs. Thus, when an appointed member gives the casting vote, his decision amounts to an arbitration award. The functions of a Trade Board are, in effect, a combination of the principles of collective bargaining, conciliation and arbitration.

Trade Boards are responsible for fixing minimum time-rates for each group of workers in the industry either in the form of a general minimum or by separate minima for different classes of workers or for different areas. Other functions of the Boards are to fix, if desired, minimum piece-rates ; to establish, if deemed necessary, District Committees to report upon local conditions ; and to consider and report upon any matter relating to conditions within an industry referred to them by any Government Department. By virtue of the *Holidays with Pay Act*, 1938, a Trade Board may direct that workers for whom a minimum rate of wages is fixed shall be allowed paid holidays for a specified period not exceeding one week per annum.

The Value of Trade Boards.

Trade Boards perform a very valuable function in that they enable employers and workers to meet where no other organisation exists; and in those trades in which the workers are unorganised, the Boards provide a basis on which to build the necessary machinery. But until the scope of their activities is extended from merely fixing wage rates to determining general working conditions in the trades to which they apply, the Boards have but a limited utility. It appears that this extension cannot take place until the workers are in a position to bargain with the employers on an equal footing. Moreover, it would necessitate the transference of the power to regulate hours and conditions of employment from the Home Office to the Ministry of Labour.

WORKMEN'S COMPENSATION

The first attempt to assist a worker who was injured in the course of his employment was made by the *Employers' Liability Act*, 1880, which provided that *damages* could be recovered by the workman or his representatives in the form of a lump sum, in the case both of death and of injury. Under this Act the maximum sum which could be awarded was an amount equal to three years' earnings of the worker, and no provision was made for weekly payments. The *Workmen's Compensation Acts*, 1897 and 1906, went further and gave certain classes of workmen the right of *compensation* apart from any question of negligence on the part of the employer. These two Acts have since been repealed and various other measures passed, but the whole law on the subject of compensation is now provided for by a consolidating Act, *The Workmen's Compensation Act*. 1925.

Workmen's Compensation Act, 1925.

This consolidating Act came into operation in 1926 and applies to any person who has entered into a contract of service with an employer, provided that either he is a manual worker or his earnings do not exceed £350 a year.

Claims.

The injury must arise out of and in the course of employment and must be such as to disable the workman, either totally or partially, for more than three days. The claim for compensation must be made within six months of the date of the accident. Claims may also be made in respect of certain scheduled industrial diseases.

Compensation.

In *fatal cases*, where the dependants are adults, compensation is based on three years' earnings up to a maximum of £300. Additional compensation is allowed where there are also children

under the age of fifteen. The additional amount is 15 *per cent* of the weekly earnings, with a maximum of 6*s*. and a minimum of 3*s*. per week for each child until it reaches the age of fifteen. The maximum compensation in these cases is £600 and the minimum is £200.

In the event of *total incapacity*, weekly payments based upon the average weekly earnings, up to a maximum of 30*s*. per week, are paid. Compensation is 50 per cent. of the average weekly earnings, but, should this be less than 25*s*., the workman receives in addition one-half the difference between the amount and 25*s*. or his average earnings, whichever is lower.

For *partial incapacity* a weekly payment is made based on the amount which would have been payable if incapacity had been total. If the latter would have been 25*s*. or more, the amount for partial incapacity would be one-half the difference between the injured man's earnings before the accident and his earnings after the accident.

After weekly payments have continued for six months, the employer may commute future payments by a lump sum payment. All disagreement arising out of claims are settled by arbitration, the arbitrator invariably being the County Court Judge.

Workmen's Compensation Insurance.

Workmen's Compensation forms a suitable subject for insurance, and prudent employers invariably cover themselves against the risk of liability under this heading (see Chapter 46).

SOCIAL INSURANCE

Whilst the measures here mentioned were of the utmost importance in safeguarding the working classes against undue exploitation, there still remained the problem of providing some degree of *security* in the economic life of the worker. Until quite recent years, the wage earned by the hired industrial worker represented his sole means of meeting all contingencies, though the risks to which such workers were subject had long been rapidly increasing, as, for example, those which arise from: (*a*) temporary unemployment owing to accident, disease, ill-health or slackness in trade; (*b*) permanent incapacity, due to disablement or old age; and (*c*) death, involving burial expenses and unprovided widows and orphans. To-day in all progressive societies, some attempt to compensate for the inadequacy of the wage to meet the many claims on it is made by the institution of schemes of social insurance, varying in extent in different countries.

Schemes of social insurance undertaken by the State are compulsory. They enforce saving, and have the advantages

of all large-scale enterprise in that they result in a reduction of costs. But social insurance, involving contributions from employers and employees, differs both from saving and from public relief in that it gives the worker a definite insurance against risk. It involves a definite legally enforceable agreement to pay a certain sum in money, or in goods and services, as compensation against the loss resulting from undesired contingencies which reduce earning capacity or increase expenditure beyond the normal.

The scheme prevailing in England and Wales embraces Unemployment and Health Insurance as well as Widows' and Orphans' Pensions.

NATIONAL HEALTH INSURANCE

The general purpose of the *National Health Insurance Act*, 1936, which consolidates earlier legislation, is both to protect the health of the working population and to prevent destitution of families during the illness or on the death of the bread-winner. The scheme is compulsory for all persons earning not more than £250 per year who are not their own masters, and who are between the ages of 16 and 65. *All* manual workers have to be insured whatever their average earnings may be.

An employed person who satisfies certain specified conditions (*e.g.*, that of having a private income of at least £26 per annum) may obtain exemption from paying contributions. but even such a person, who has gone out of his way to avoid insurance, is entitled to the benefit of medical attendance if he chooses to exercise his right.

Contributions.

Contributions are made by the employer, the employee and the State. The normal rate of contribution is now 9*d.* weekly for a man and 8½*d.* weekly for a woman, of which 4½*d.* is paid by the employer and the balance by the employed person, being deducted from his or her wages. Contributions are ordinarily paid by affixing to contribution cards insurance stamps which are purchased from the Post Office. In the case of employed persons, the employer is responsible for the payment of the contributions and for the affixing of the relevant stamps, but a voluntary contributor is required to pay the whole contribution himself.

Benefits.

The benefits provided under this scheme are as follows :—

(*a*) Medical Benefit, which includes medical attendance and treatment, with the provision of proper and sufficient medicines and of prescribed medical and surgical appliances.

(b) SICKNESS BENEFIT, comprising weekly money payments during illness for a period not exceeding 26 weeks.

(c) DISABLEMENT BENEFIT, being a lower rate of cash benefit which is paid after 26 weeks' sickness benefit has been received, provided that at least 104 weeks have elapsed since entry into insurance, and 104 weekly contributions have been paid.

(d) MATERNITY BENEFIT, consisting of a money payment of £2 on the birth of a child to an insured person or to the wife of an insured person.

(e) ADDITIONAL BENEFITS given by approved societies which have a disposable surplus on valuation, *e.g.*, dental treatment.

Approved Societies.

The intention of the National Health Insurance Act, 1911, was that persons brought within the scheme should join self-governing societies, known as *Approved Societies*, to administer the money benefits. These societies constitute an essential part of the machinery of the Scheme, and, particularly as they include Trade Unions, they considerably facilitate the administration of the Act. Persons who cannot, or will not, join an approved society automatically become Deposit Contributors and members of what is known as the "Deposit Contributors Fund," which is a similar organisation to an approved society, but is administered by the State.

The Insurance Committees.

As many medical practitioners refused to serve under approved societies, special committees were appointed to administer the medical benefits. These committees are appointed for each County or County Borough throughout the Kingdom. They are composed mainly of elected representatives of insured persons in the area, but medical men, the County Council or County Borough Council, as the case may be, and the Ministry of Health are also represented. Women, also, are included among the members of each insurance committee. These bodies make the necessary arrangements with doctors for providing attendance and with chemists for the supply of drugs and appliances. They are also responsible for making recommendations to the Ministry for the payment of cash benefits to certain of the Deposit Contributors and to all members of the Navy, Army and Air Force Fund.

WIDOWS', ORPHANS' AND OLD AGE PENSIONS INSURANCE

Provision for pensions for dependants is made under the *Widows', Orphans' and Old Age Contributory Pensions Act*, 1936, which consolidates legislation dating from 1925. All

persons who are insurable under the Health Act are also insurable under the Pensions Act.

Benefits.

(1) WIDOWS' PENSIONS.—The widow of an insured person receives 10*s*. per week, and an additional allowance of 5*s*. for the eldest child under 14 years of age, and 3*s*. per week for each younger child. A widow is eligible to receive benefits only if her husband had been insured for at least 104 weeks and had paid 104 contributions.

(2) ORPHANS' PENSIONS.—Children of a widow who is receiving a widow's pension cannot receive orphans' pensions. Orphans' pensions are 7*s*. 6*d*. per week and cease at the age of 14, except where the child is under full-time instruction in a day school, when the pension continues until the age of 16.

(3) OLD AGE PENSIONS.—Insured men between the ages of 65 and 70 receive 10*s*. per week. Women (and the wives of insured men in receipt of pensions) receive this pension at the age of 60. After 70 the pension continues payable under the Old Age Pensions Acts. To be eligible for the pension, the insured person must have been continuously insured for five years, and must have paid at least 104 contributions. Under the Old Age and Widows' Pensions Act, 1940, supplementary pensions are also provided to those in need through local assistance boards.

Contributions.

The conditions of the payment of contributions under the Health Act apply to the payment of contributions under the Pensions Act. The contributions are payable in one combined contribution, and a voluntary contributor must himself pay the whole of the combined contribution applicable to both schemes.

The Widows', Orphans' and Old Age Contributory Pensions (Voluntary Contributors) Act, 1937.

The main object of this Act was to enable the benefits given by the compulsory pensions insurance scheme to be enjoyed by those who were outside its scope.

The scheme applies to men and women with an income not exceeding £400 and £250 respectively at the time of entry into insurance, who are willing to become voluntary contributors. For male initial entrants, *i.e.*, those who entered before 3rd January 1939, the age limit was fixed at 55, and the weekly contribution for all benefits was 1*s*. 3*d*. After that date the age limit became 40 and the contributions depend on the sex and age of the contributor.

The benefits are the same as under the compulsory scheme but to become eligible for an old age pension, the contributor must have been continuously insured for ten years and have paid 260 weekly contributions.

UNEMPLOYMENT INSURANCE

Employment Exchanges.

These were established in 1909 to mitigate two evils in the modern industrial system: (*a*) the immobility of labour, and (*b*) the absence of information concerning available employment. They establish a common reserve of registered labour, from which employers may secure workers and to which jobs may be allocated as applications are received for labourers with prescribed qualifications or experience. Their special objects are: (1) the decasualisation of casual employment; (2) the dovetailing of one seasonal trade with another by transferring workers from trades which are slack to trades which are busy; (3) the guidance, in conjunction with local education authorities, of boys and girls in the choice of careers, so as to divert the stream of juvenile labour from declining and overcrowded occupations to growing trades; (4) the abolition of the necessity for any person genuinely desiring work to tramp from town to town; (5) the provision of a direct "test of unemployment," without which any scheme of unemployment insurance cannot safely be undertaken.

National Unemployment Insurance.

The *Unemployment Insurance Act*, 1935, and the *Unemployment Insurance* (*Agriculture*) *Act*, 1936, involve schemes that are compulsory and contributory, and apply to substantially the same occupations as come under the National Health Insurance Acts. The schemes give some measure of security to the great class of workers who are dependent for their livelihood on their earnings, and employees, employers and the State all contribute to the fund from which benefits are paid. In general, all employed persons above fourteen must be insured (though benefits are not payable until they reach the age of sixteen), but exceptions are made in the case of domestic servants, nurses, policemen, soldiers, sailors, airmen, and all non-manual workers earning more than £250 a year. Agricultural workers are insured under the 1936 Act for smaller benefits in return for smaller contributions than those under the main 1935 Act. Certain persons are exempt from causes other than the nature of their work, but the exemption only extends to the employee's contribution, and the employer has still to pay his share. This is to prevent employers from taking exempt persons in preference to ordinary workers.

The period of benefit is limited, and the benefits are not paid merely for the asking but only when the well-defined conditions are fulfilled. The worker must apply at the Employment Exchange by depositing his insurance card there, and he must accept suitable work offered to him unless a trade dispute is in

progress or a rate of pay is offered that is below the current rate. Nobody engaged in a trade dispute is entitled to receive benefit. Further, no person is entitled to receive *both* an old age pension or sickness benefit, or other similar benefit *and* unemployment benefit.

The Unemployment Insurance Statutory Committee, set up under the 1935 Act, reports periodically to the Minister of Labour on the financial conditions of the schemes.

Unemployment Assistance.

After insurance rights have expired, workpeople become entitled to *unemployment allowances* under Part II of the *Unemployment Act*, 1934. The *Unemployment Assistance Board*, created under that Act, is responsible for the welfare of such persons, who are not entitled to *insurance* benefits. These persons receive allowances out of a separate unemployment assistance fund, the cost being borne partly by the local authorities. These allowances are not insurance benefits, and amount, in effect, to poor relief, the amount varying with the means and the needs of the applicant.

QUESTIONS BEARING ON CHAPTER 50

1. What are the main risks to which a worker and his dependants are subjected in the modern industrial system ?

2. Define Social Insurance. What is its scope and how are the funds therefor obtained in this country ?

3. Describe the benefits provided by the Health Insurance Acts.

4. Outline the functions of the Employment Exchanges, and indicate how they carry out their objects.

5. Describe the machinery by which the National Health Insurance Acts are administered.

6. In what circumstances can a workman claim (*a*) damages, (*b*) compensation from his employer ?

7. Why is action by the State rendered necessary in the case of workpeople in factories and workshops ? Give some account of the protection which is thus afforded.

8. How are factories and workshops classified for purposes of the Factories Acts ?

9. What are "trade boards" ? Explain their functions and the advantages which attend their operation.

CHAPTER 51

TRADE UNIONS

A "TRADE UNION" is an association of workmen formed to protect the interests of its members. It aims at strengthening and facilitating the bargaining power of the workers, by substituting collective for individual action. The Unions insist upon standard rates of wages, of hours and of working conditions, and exert pressure upon employers to ensure that the workers are reasonably paid. Thanks to such activities, trade unions have established themselves as an essential part of modern economic organisation and have led to a marked improvement in the standard of living of the workers in many occupations.

Early in their history, trade unions began to assume various functions ancillary to their main objects. Many of them have to some extent usurped the functions of Friendly Societies and maintain separate funds for the payment of sickness, unemployment and death benefit to their members. Usually, too, trade unions maintain a distinct fund for political objects, and from this contributions are made chiefly to the Labour Party, many of whose representatives in Parliament are trade union leaders.

The History of the Movement.

Before 1871, trade unions had no legal existence or status. Although unions of workmen existed before the nineteenth century, their real development was concurrent with the Industrial Revolution. The introduction of machinery and steam-power brought with it a complex industrial organism which necessitated greater accumulations of capital than the ordinary journeyman could command. Thus, there arose two distinct classes—an employing class and an employed class—with different and frequently hostile interests. The members of the employed class began to combine for mutual protection—a tendency greatly increased by the *laissez-faire* policy then pursued by the Government, which exposed the employed class to the full force of unrestricted competition. The movement, however, was checked by legal restrictions imposed on trade union activities.

Under Common Law, combinations of workmen were held to be illegal as being in restraint of trade, and many Acts were passed to prevent their formation. In 1824, however, a Royal

Commission which reported against the Combination Laws, as these Acts were called, pointed out that they were ineffective and mischievous, and, as a result, an Act was passed in the same year repealing all existing Combination Laws. The effect of this was to leave matters open to abuse, and in the following year a fourth Act was passed which restored the old position but allowed a limited right of combination. Trade unions ceased to be criminal associations, but they remained *non-legal* associations, with the result that their funds were at the mercy of any dishonest official.

The period from 1835 to 1860 was one of revival and expansion. The year 1841 saw the formation of the *Miners' Association of Great Britain and Ireland*, and 1850 the formation of the *Amalgamated Society of Engineers*, associations that became of outstanding importance in the trade union world. Disturbances by members of these new associations in various industrial centres led to the appointment in 1866 of a Royal Commission to enquire not only into the cause of the outrages but also into Trade Unionism itself, and their Report formed the basis of the trade union legislation of 1871–1876.

The Acts passed during this period gave to trade union funds the protection afforded by the Friendly Societies Acts and safeguarded them against the wrongful acts of agents. "Picketing" (*i.e.*, persuasion by strikers directed towards the cessation of work by those remaining at work) was legalised provided it did not involve violence or intimidation, and trade unions were given a position of legal privilege by an amendment in their favour of the law of conspiracy. Thus, Mr. Cross's Act of 1871 enacted that "an agreement or combination by two or more persons to do or procure to be done any act in contemplation or furtherance of a trade dispute between employers and workmen shall not be indictable as a conspiracy, if such act committed by one person would not be punishable as a crime." In this way combination in furtherance of trade disputes was legalised.

An important result of the passing of the 1871 Act was the establishment of the *Trades Union Congress* (T.U.C.), a body of representatives of most but not all trade unions. This met for the first time in London in 1871, and appointed a *Parliamentary Committee*, which became henceforth the head of the trade union movement and the means whereby the trade union world sought to influence legislative action. A later development was the establishment of the *General Council* of the Congress.

Membership of the Congress increased rapidly until 1920, when it reached its maximum with a total of 6,505,482; but since that year industrial depression and unemployment have led to a gradual decline, but in spite of that the membership is slightly greater now than before the Great War.

Trade Union Methods.

The regulations adopted by trade unions to protect the standards set up include the restriction of entry into a trade, apprenticeship rules, and restrictions upon the employment of non-unionists, boys and women. In so far as such regulations are used for maintaining high standards of work or for safeguarding a "reasonable" standard of living, they are justified, but if they are used to maintain an "unreasonable" standard of living at the expense of other sections of the community, they are to be condemned.

Clearly, the enforcement of standard regulations involves their acceptance and recognition not only by employers but also by workers. Each trade union has therefore its rules and regulations, which must be obeyed by all members. A member who fails to abide by regulations, *e.g.*, by working for less than standard pay or for longer than regulation hours, is subjected to disciplinary action, and, since membership of the union is a valuable privilege, disobedience to the established rules is rare.

As against employers, the chief weapon of the trade union is the "*Strike*." If employers refuse to meet the demands of a union it may, as a final resort, call a strike, when all its members lay down their tools and refuse to go on with their work. But a strike must be financed: workers cannot remain idle and give up their wages without some other means of support. For this reason each union collects subscriptions from its members and builds up a *Strike Fund*, out of which strike pay is paid to the striking members.

Collective agreements made between trade unions and employers' federations are not enforceable at law. They are purely voluntary arrangements, which define the terms of contracts between individual workmen and their employers, with the primary object of standardising conditions of employment. The chief advantages realised by these agreements are: (*a*) They provide a strong stimulus to technical progress—if conditions are not standardised, inefficient employers may neutralise the advantages of more progressive employers by lowering wages or lengthening hours: in such circumstances initiative and industrial progress are checked; (*b*) They stabilise labour costs over agreed periods—this tends to remove an element of uncertainty, enabling employers to enter into contracts with greater confidence.

Classes of Trade Unions.

By the *Trade Union Acts*, 1871 to 1913, a trade union is defined as "any combination, whether temporary or permanent, the principal objects of which are under its constitution statutory objects: Provided that any combination which is for the time being registered as a trade union shall be deemed to be a trade

union as defined by this Act so long as it continues to be so registered."

The statutory objects mentioned above include "the regulation of the relations between workmen and masters, or between workmen and workmen, or between masters and masters, or the imposing of restrictive conditions on the conduct of any trade or business, and also the provision of benefits to members."

At the present time, therefore, there are at least four classes of trade unions, *viz.* :—

(*a*) Registered Trade Unions, the entire objects of which are "statutory objects," as, for example, regulation of the relations between workmen and masters and the provision of benefits to members.

(*b*) Registered Trade Unions, the chief objects of which are "statutory objects," but which have other objects or powers not included in the term "statutory objects."

(*c*) Registered Trade Unions for the time being, *i.e.*, combinations registered before the passing of the Act of 1913, and which have continued to be so registered.

(*d*) Unregistered Trade Unions, *i.e.*, those holding *certificates* testifying that they are trade unions within the meaning of the Act of 1913.

Trade Unions may also be classed according to the types of workers catered for, as follows :—

(1) Craft Unions, which include, or aim at including, all the workers in a certain skilled craft, *e.g.*, woodworkers.

(2) Industrial Unions, which include all the workers, skilled and unskilled, engaged in a particular industry, irrespective of craft, *e.g.*, the National Union of Railwaymen.

(3) General Labour Unions, which include workers of the less-skilled type, irrespective of craft or industry, *e.g.*, the Transport and General Workers' Union.

State Attitude to Trade Unions.

The attitude of the State towards these combinations of workers has undergone considerable change since the beginning of the nineteenth century. At first legislation was directed against them on the grounds that they were in restraint of trade, and that complete freedom of contract between workmen and employers was the best means of achieving economic progress. The Industrial Revolution completely changed this outlook. The congregation of great numbers of workers in large towns and their lack of organisation placed them in a weak position as compared with the employers of labour. The latter were thus able to enforce objectionable conditions of work and to keep wages down to a mere pittance.

Later it came to be recognised that, without direct intervention by the State, the only method by which employees could improve their position was by collective action. Hence legislation was passed legalising the position of trade unions and recognising the right to united action on the part of labour for the attainment of improved working conditions and higher wages.

The tremendous growth in the power of trade unions in recent years resulted, however, in a revolution of feeling on the part of the State. The General Strike of 1926 illustrated that the power wielded by organised labour was open to abuse. It became obvious that the general public had to be protected from the evil effects of strikes, while members of trade unions needed protection from wrongful action on the part of other members. Hence, in 1927 the *Trade Disputes and Trade Unions Act* was passed.

Trade Disputes and Trade Unions Act, 1927.

This Act dealt primarily with illegal strikes and lock-outs. A strike is now illegal if it has any object other than the furtherance of a trade dispute within the trade or industry in which the strikers are concerned, that is, if it is a "sympathetic strike," or if it is designed or calculated to coerce the Government either directly or by inflicting hardship upon the community; in other words, if it is in the nature of a "general strike." An illegal lock-out is defined on similar lines.

The Act makes it illegal to begin, or continue, or to apply any sums in furtherance or support of an illegal strike or lock-out; and the promoters or instigators of an illegal strike or lock-out are made subject to special penalties, but only on an official prosecution. Mere strikers are not, however, punishable under this clause. Provisions are also included for the protection of non-strikers.

The Act defines certain terms, thus :—

(*a*) A STRIKE is defined as the cessation of work by a body of persons employed in any trade or industry acting in combination, or a concerted refusal of any number of persons who are or have been so employed to continue to work or to accept employment.

(*b*) A LOCK-OUT implies the closing of a place of employment, or the suspension of work, or the refusal of an employer to continue to employ any number of persons employed by him, in consequence of a dispute, with a view to compelling those persons, or to aid another employer in compelling persons employed by him, to accept terms or conditions of employment.

(*c*) A strike or lock-out is not "*Calculated to coerce the Government*" unless coercion may reasonably be expected as a consequence.

(*d*) A Trade Dispute is not "*within a Trade or Industry*" unless it is a dispute between employer and workmen, or between workmen and workmen in that industry, *and* is connected with the employment or non-employment or conditions of labour of persons in that trade or industry.

(*e*) Workmen are deemed to be "*within the same Trade or Industry*" if their wages or conditions of employment are determined by the same Joint Industrial Council, Conciliation Board, etc., or under agreements made with the same employer or group of employers—*e.g.*, those of the "engineering and allied trades."

With the object of still further strengthening the foregoing provisions, the Act provided for the substitution of the principle of "Contracting In" for that of "Contracting Out." Put quite shortly, this means that it is now unlawful for a union to require a contribution *to its political fund* from any member unless that member has previously given notice in writing that he is willing to pay such a contribution; moreover, the contribution must be levied separately from the other funds of the union. Finally, the Act provided that picketing at the house of a trade union member should be confined to peacefully obtaining or communicating information.

Trade union legislation has therefore aimed at securing the rights of the weak against the strong. On the one hand, the weak position of the worker in bargaining individually with his employer has been recognised and he has been granted the right to combine and, if necessary, to strike, to obtain fair conditions of employment. On the other hand, the State has found it necessary to check the power of trade unions when they threatened to interfere with the rights of the general public.

QUESTIONS BEARING ON CHAPTER 51

1. What do you understand by a "Trade Union"? Explain its objects and functions.

2. Explain how a Trade Union achieves its aims and makes effective its wishes among its members.

3. Briefly trace the history of the Trade Union movement in this country and estimate its present importance in economic life.

4. Distinguish between a "strike" and a "lock-out."

5. What was the object and what has been the effect of the *Trade Disputes and Trade Unions Act*, 1927?

6. Discuss briefly the main restrictions upon labour imposed by Trade Union regulations and customs. (*A.I.C.A., Final.*)

CHAPTER 52

ARBITRATION AND CONCILIATION

ARBITRATION is a device invented to avoid industrial strife and has been defined as " a reference to the decision of one or more persons either with or without an umpire, of a particular matter in dispute between two parties." To be of full effect, such a decision must be binding on both parties in the same way as judgment.

The growth of arbitration as a means of settling disputes has made steady progress and to-day is of considerable importance in the world of commerce, where it has been found that the reference of a dispute to an arbitrator for settlement is in many ways more satisfactory than recourse to an action in the Courts. Hence, it is now a common practice to include in a contract a stipulation that any dispute arising therefrom shall be referred to an arbitrator.

Definitions of Terms.

A SUBMISSION is an agreement to submit differences to arbitration, whether or not an arbitrator is named. If the arbitration is to be governed by the *Arbitration Act*, 1889, the submission must be in writing.

A REFERENCE means the proceedings during an arbitration; the term also refers to the *act* of submitting to arbitration.

THE REFEREE is the person to whom a matter is submitted for arbitration.

AN UMPIRE is a person appointed to make an award (or umpirage) when a matter has been submitted to two or more arbitrators and they fail to agree.

AN AWARD is the formal decision of an arbitrator.

Arbitration in Industrial Disputes.

It is in the sphere of industry that arbitration is most commonly used to settle disputes. The State has, by various Acts, attempted to provide means whereby disputes between employers and employed can be settled amicably and without the necessity of strikes and lock-outs, which entail hardship and loss to the whole community.

Arbitration in industrial disputes differs from arbitration in the legal sense in two respects. In the first place the association or groups of persons who are usually concerned in labour

disputes have generally a defective legal personality and have, therefore, no legal force to make decisions binding. Secondly, the questions referred to arbitration often relate to the terms on which *future* contracts shall be made, whereas the law deals only with *present* or *past* differences.

Means by which a Dispute may be Referred to Arbitration.

There are four methods by which settlement by arbitration can be achieved, *viz.* :—

(*a*) By voluntary submission out of Court where no legal action is pending. This takes place by mutual agreement, but to bring the agreement within the scope of the *Arbitration Act*, 1889, it must be in writing.
(*b*) By reference by the Court, with the consent of the parties, of the whole of the matter in dispute before it.
(*c*) By reference by a compulsory order of a Court.
(*d*) By references under various statutes which provide that proceedings thereunder shall or may be submitted to arbitration. The chief of these statutes are: *The Lands Clauses Consolidation Act*, 1845; *The Railway Clauses Act*, 1845; *Markets and Fairs Clauses Act*, 1847; *Metropolis Management Acts*, 1855 and 1878; *London Building Act*, 1894; *Workmen's Compensation Act*, 1925; *Agricultural Holdings Acts*, 1923; *Companies Act*, 1929.

Validity of a Submission to Arbitration.

As a general rule it may be said that all persons who have capacity to enter into a binding contract can be parties to a submission to arbitration, which is nothing more or less than an ordinary contract. But the rule is subject to certain modifications. Thus, an arbitrator's award is not binding on an infant; he may repudiate it on coming of age, or within a reasonable time thereafter. Again, one partner cannot, without express authority, bind the other partners by submitting to arbitration a matter concerning the partnership, but, after the reference has commenced, such other partners may become bound by implied or express acquiescence.

Although an agent, if duly authorised, may bind his principal by a submission, the submission must be in the name of the principal, and, if the submission is to be by deed, the agent's appointment must be under seal.

A corporation may submit a matter to arbitration, under seal, or in accordance with the rules of its governing statute.

Submission by a bankrupt does not bind his estate, but his trustee may refer, with the sanction of the committee of inspection. A bankrupt's submission may, nevertheless, bind him personally. Finally, legal advisers may submit a client's

cause and bind him by submission to arbitration. The client may, however, avoid responsibility by notifying his disapproval immediately.

Advantages and Disadvantages of Arbitration.

As compared with legal action, the advantages of arbitration may be discussed under four main heads :—

(*a*) PRIVACY.—By referring their dispute to arbitration, the parties concerned need have no fear that their business affairs and differences will become common knowledge as is the case when legal action, with its attendant press publicity, is taken.

(*b*) SIMPLICITY.—Each case submitted to arbitration is dealt with on its particular merits, without reference to abstruse legal points often scarcely understood even by the jurists.

(*c*) SPEED.—Since an arbitrator can devote his whole time to the settlement of a particular dispute without the necessity of calling numerous witnesses and requiring voluminous evidence, each case may be expeditiously settled.

(*d*) ECONOMY.—When legal action is taken, heavy expense is incurred by both parties. Arbitration is far less costly.

Among the disadvantages of arbitration the following may be mentioned :—

(*a*) Unless general economic principles governing the question at issue are admitted by both sides, the arbitrator cannot know what considerations to take into account in giving his award.

(*b*) Arbitration is objected to by employers where the discipline and management of their business are concerned, and by workmen where there is any likelihood of the reduction of wages below what is considered to be a guaranteed minimum.

(*c*) Unrestricted facilities for arbitration make a dispute a less serious matter and therefore tend to result in the multiplication of so-called disputes.

(*d*) The tendency for the arbitrator to split the difference causes the demands of both parties to be put at an absurdly high (or low) figure.

(*e*) The necessity for an arbitrator to have practical knowledge of the industry, combined with sufficient legal experience to ensure the making of a legally valid award and an unbiased mind, narrows the sphere of choice considerably, and involves the need for special methods of appointment.

Conciliation.

Although conciliation, like arbitration, is widely used for the settlement of industrial disputes, it differs from arbitration in that it implies those methods wherein the parties bargain directly with each other and come to agreement *without outside intervention.*

The most usual form of machinery for the settlement of disputes by voluntary conciliation is a joint *Conciliation Board* comprising equal numbers of representatives of employers and employed. The members of the board are elected usually by the employers' and workmen's associations respectively, though the workmen's representatives may be elected, not by their trade union, but by workmen employed at the various works. The chairman of the board may be either an independent person with a casting vote, or, as is usually the case, a representative of the employers; the vice-chairman is usually one of the workmen's representatives.

The rules of Conciliation Boards thus constituted usually provide for equality of voting as between employers and workmen, allowance being made for casual absences. It is sometimes provided in order to expedite business that all questions shall be considered first by a sub-committee, having power to settle such questions by agreement before referring them to the full board.

In cases where there are no permanent boards for the settlement of disputes, elaborate agreements sometimes exist between the employers' and workmen's organisations prescribing, among other things, the mode in which questions shall be dealt with, and, if possible, settled. If a question cannot be settled between the employer and his workmen directly, it is dealt with by the local associations, or by their officials, and, if no settlement can be reached, the matter is referred to a joint meeting of the executive committees of the two associations. Local working rules sometimes provide for the reference of disputed questions to a joint committee, with or without arrangements for an ultimate reference to arbitration.

A *District Board* is a form of voluntary board consisting, usually, of equal numbers of representatives elected by the local Chamber of Commerce and Trades Council, its functions being to deal with disputes in any trade within the particular district, but to take action only with the consent of both parties to the dispute.

Another type of board, which represents two or more groups of workmen, and sometimes their employers, has as its object the settlement of "demarcation" disputes between the groups of workers, *i.e.*, questions as to the limits of the work which each group is entitled to perform.

The Conciliation Act, 1896.

This Act was passed with the object of encouraging: (1) the settlement of industrial disputes by conciliation; and (2) the establishment of conciliation boards as a means to that end. The Act gave the following powers to the Board of Trade:—

(1) To keep a Register of those Conciliation Boards which applied for registration and filed copies of their constitution, by-laws, etc.

(2) Where a dispute existed or was apprehended:
  (*a*) To enquire into the causes and circumstances of the dispute.
  (*b*) To take any steps deemed expedient to bring the parties together, and to appoint a Chairman if the parties were unable to do so.
  (*c*) On the application of either party to the dispute, to appoint a conciliator or board of conciliation, if adequate machinery did not already exist.
  (*d*) On the application of *both* parties to the dispute, to appoint an arbitrator.

(3) Where adequate machinery did not exist, to appoint persons to enquire into conditions in the district and to take steps to establish a board.

The operation of the Act was purely voluntary, and this was at once its strength and its weakness. Earlier attempts at legislative assistance to conciliation and arbitration failed, mainly owing to the suspicion of their compulsory elements and to the fear of legal coercion. The Act of 1896 was based on a recognition of the value of *voluntary* action, but largely because of this it proved to be inadequate, for many of the larger employers refused to recognise organisations of workers for negotiation purposes. As a result, the Act did not operate to any very great extent, and in the succeeding decade the increase in disputes showed the necessity for other machinery. The railway dispute of 1907, for example, caused the Board of Trade to intervene and to set up standing Arbitration and Conciliation Boards throughout the country for each grade of railway worker.

The general spirit of unrest led to the formation in 1911 of an *Industrial Council*, "for the purpose of considering and of enquiring into matters referred to them affecting trade disputes, and especially of taking suitable action in regard to any dispute referred to them affecting the principal trades of the country or likely to cause disagreements involving ancillary trades, or which the parties before or after the breaking out of a dispute are themselves unable to settle." The Council, which comprised representatives of workers and employers, with a per-

manent chairman, known as the chief Industrial Commissioner, did much useful work in bringing together disputing parties, but in 1915 an attempt to enforce compulsion (the *Munitions Act*) failed entirely.

The Whitley Report.

In 1917 the Whitley Committee, set up to review this machinery, arrived at the conclusions that: (1) Compulsory arbitration was not only unacceptable to the parties concerned, but failed to prevent strikes; and (2) Further encouragement of voluntary arbitration and conciliation was desirable.

The Industrial Courts Act of 1919.

The result of the recommendations of the Whitley Committee was the passing of the *Industrial Courts Act*, which extended the sphere of the Conciliation Act. Its principal provisions were as follows :—

(1) The Minister of Labour was empowered to set up a permanent *Industrial Court*, consisting of three panels: (*a*) of employers, (*b*) of workers, (*c*) of the general public.

(2) In the event of a dispute or the apprehension of a dispute the Minister could, at the request of either party and with the consent of the other, refer the matter to— (*a*) the Industrial Court; or (*b*) the arbitration of one or more persons nominated by him; or (*c*) a specially constituted body. In none of these cases, however, was the award to be legally binding.

(3) The Minister could, on his own initiative, set up a *Court of Enquiry*, which might compel evidence on oath, and make recommendations to the Minister.

Although this Act has met with greater success than the Conciliation Act, 1896, it has been criticised on the ground that it is " all tail and no head." This is because it was originally intended to include provisions for compulsory methods, but these provisions were deleted at the last moment

The Pros and Cons of Conciliation.

As a general rule it may be said that conciliation is to be preferred to arbitration, and for that reason should always be given a fair trial before resort is had to outside intervention. The disadvantages quoted against conciliation are very often really difficulties in the problems to be faced rather than inherent defects in conciliation as a method of settling disputes.

Nevertheless, it must be admitted that conciliation does

suffer from certain difficulties. For instance, much of its effectiveness depends upon *centralisation* in the associations concerned, and where the unions and employers' federations are but loosely linked, the central executives have frequently neither the interest nor the will to settle disputes. So that unless some degree of centralisation exists, the conciliatory machinery may not be convenient, expeditious or cheap. A certain amount of danger arises from the fact that local conferences tend to settle a dispute on purely local lines rather than on broad principles with a view to future possibilities. There is also the risk that in an attempt to settle wages disputes over a period, *e.g.*, wage agreements on sliding scales, an agreement by conciliation is likely to be regarded with more suspicion than one fixed by an independent arbitrator. Again, inconvenience is caused when the organisation on one side is weak, by the need for large representation of the parties to the dispute in order to ascertain their real interests and desires; a meeting of five or six hundred men is obviously not the best means for drawing up an intricate agreement. Finally, there is always the danger that the methods of the conciliation board may engender irritation, and for this reason technicalities and lawyers should be barred; decisions should be valid only when determined unanimously or by a large majority, say seven-eighths, rather than by a bare majority; deliberations should be held *in camera* so as to ensure complete frankness; to avoid any formalities when a difference becomes acute, the negotiators should be chosen at regular intervals rather than *ad hoc*; and there should be no referendum from the appointed negotiators to the main body of either employers or employed.

Despite the many difficulties with which methods of conciliation have to contend, it is nevertheless considered that the machinery of conciliation should always be given its fair trial. If the result is failure, then it is time to resort to arbitration, and it is as a last resort that arbitration should be regarded.

Proposals for Compulsory Arbitration.

Practically all methods devised for settling industrial disputes have the weakness of being purely voluntary in character, which means that the parties are not bound either to make use of the machinery or to accept the decisions. This defect will probably never be entirely remedied, but compulsion might be introduced to compel: (*a*) The parties to submit their dispute to a board of conciliation, whether or not they eventually accepted its decision; (*b*) The attendance of witnesses and/or the production of documents; (*c*) The observance of the award of the referee by both parties.

The last requirement would necessitate the acquisition by the associations of employers and employed of that legal personality

and corporate character which would enable them to sue one another, or their members, for breach of agreement. But this would not prevent individuals from leaving their associations to avoid liability. As it is, the cases of repudiation of an agreement or of an award are nowadays quite rare.

Experiments in *compulsory* arbitration which have been made in Australia, New Zealand and Germany have brought to light certain disadvantages. In the first case, the satisfactory settlement of a dispute depends entirely on agreement between both sides, and any attempt at compulsion must result in an unstable settlement. Secondly, the absence of established principles governing wages in different industries makes any settlement merely a compromise and therefore of a conciliatory rather than of a judicial nature. Further, the employers' and workers' organisations are not willing to renounce their powers to lock-out or to strike, but the acceptance of compulsory arbitration could not take place without such renunciation. Finally, the tendency, where compulsory arbitration is introduced, is for both sides to exaggerate their case, thus making the task of the arbitrator extremely difficult and reducing the chances of a satisfactory settlement.

QUESTIONS BEARING ON CHAPTER 52

1. What do you understand by arbitration? What is its importance in commerce?

2. What advantages has arbitration over legal action?

3. Distinguish between conciliation and arbitration, pointing out the advantages of the former.

4. Describe the machinery used for the settlement of disputes by conciliation.

5. What disadvantages attend compulsory arbitration? Where might compulsion be introduced?

6. Write brief explanatory notes on the following: (i) A Submission; (ii) A Reference; (iii) A District Board; (iv) The Whitley Report.

CHAPTER 58

GOVERNMENT DEPARTMENTS AND COMMERCE

THE more advanced the State the more numerous and complex are the functions which have to be discharged by the central authority, *i.e.*, the Government. The work is done through what are known as Government or Central Departments, and in recent years there has been a marked tendency for the number of such Departments to increase. Particularly noticeable has been the growth of those Departments which are directly concerned with the furtherance of the nation's trade. Increasing competition in the world's markets has led to the realisation that the promotion of commerce is one of the most essential spheres of government activity, and to-day all progressive states take most energetic and extremely valuable measures to assist their merchants and traders.

The Central Government Departments.

In this country the general work of administration is carried out by the Central Government Departments. Each Department is under the control of a Minister, who must be a member of one of the Houses of Parliament and who is responsible to Parliament for the whole of the work of his Department. The staff of these Departments consists of *Civil Servants*—permanent officials who put into actual practice the laws of the land. Parliament passes the laws, the Departments carry them into effect. Governments may come and go, but the continuity of the work of government is assured by the existence of the permanent staff. The long and continuous official life of these civil servants renders them very effective in an advisory capacity, and Ministers, who change as governments fall and rise, are forced to rely to a very large extent on the work and advice of their staffs. It is for these reasons that it is sometimes said that government policy is often the policy of the permanent staff rather than that of the Government.

The Board of Trade.

The oldest of all government Departments is the Board of Trade, which is concerned with commercial and industrial policy, both at home and abroad; the administration of certain statutes concerned essentially with trade, such as those relating to merchant shipping, bankruptcy, joint-stock com-

panies, merchandise marks, trade marks, patents, etc.; the administration of the coastguard service; the publication of statistics of trade, industry, shipping and navigation in this country, in the Dominions and Protectorates and in foreign countries, and the enforcement of customs regulations.

In constitution, the Board is an executive committee of the Privy Council consisting of a President, the Principal Secretaries of State, the First Lord of the Treasury, the Chancellor of the Exchequer, the Speaker of the House of Commons and the Archbishop of Canterbury. Actually, the Board never meets as such, but periodically the President meets the heads of the various Departments.

Since 1918, the work of the Board has been divided into two main divisions, one part under the control of the *Department of Commerce and Industry* and the other part under the *Department of Public Service Administration.*

The Department of Commerce and Industry.

This Department is concerned with the development of trade, including the consideration of suggestions and the provision of information for assisting national commerce and industry. It is divided into nine sections :—

(1) The Department of Commercial Relations and Treaties deals with all matters involving the protection and furtherance of British commercial and shipping interests in the Empire and in foreign countries. It has a special section for the licensing of imports and exports.

(2) The Department of Overseas Trade.—This important Department acts conjointly with the Foreign Office in matters relating to existing trade and the possibilities of further trade with other countries.

(3) The Mines Department was established in 1920 to secure the most effective development and utilisation of the United Kingdom's mineral resources, and the safety and welfare of the workers engaged in the mining industry. *The Mining Industry Act*, 1926, and the *Coal Mines Act*, 1930, are administered by this section of the Board of Trade, which before it sanctions any reorganisation scheme must be satisfied that its aim is "the more economical and efficient working, treating, or disposing of coal."

(4) The Department of Industries and Manufactures deals with the development of home manufactures. It is particularly concerned with the influence on British production of manufacturers abroad and of alien producers in this country, with special reference to the *Safeguarding of Industries Act*, 1921. There are five divisions to this Department, each dealing with a particular industry.

(5) The Standards Department supervises and controls the administration of the *Weights and Measures Acts*, one of

the main objects of which is to protect the consumer against the possibility of his receiving short measure or short weight when he makes his purchases.

(6) THE DEPARTMENT OF POWER, TRANSPORT AND ECONOMICS is a department formed to consider all questions of general policy relating to transport and industrial power in their commercial aspects.

(7) THE DEPARTMENT OF INDUSTRIAL PROPERTY was formed out of the old Patent Office, and administers the Acts relating to Patents, Trade Marks, Trade Names and Designs.

(8) THE INTELLIGENCE AND PARLIAMENTARY BRANCH, also of recent constitution, keeps in touch with the Committee of Scientific and Industrial Research, the Imperial Institute and the National Physical Laboratory, and its function is to act as a medium to ascertain the economic effects on Great Britain and the Empire of the latest discoveries and experiments.

(9) THE STATISTICS DEPARTMENT centralises the work of the various Departments by collecting, classifying and consolidating the various statistical returns relating to trade, industry and transport. The Department is responsible for the publication of periodical statistical abstracts, which contain *résumés* of its collated statistics. It provides a means whereby the general public may learn something of the state of industry and commerce in this country and of possible outlets for trade in other countries. The Department is divided into two main branches: the Census of Production Office and the Industrial Enquiries Office.

The Department of Public Service Administration.

This Department, engaged primarily in the administration of statutes relating to shipping, joint-stock companies, bankruptcy, etc., has several important subdivisions:

(1) THE MERCANTILE MARINE DEPARTMENT has such a wide field of duties that it is further subdivided into three sections: (*a*) the Mercantile Marine Department; (*b*) the Harbours Department; and (*c*) the Financial Department. The Department is concerned with all matters relating to the mercantile marine and the persons engaged therein; to lighthouses, foreshores, navigation, wrecks and salvage. It also keeps all official shipping records, including records of the logs of ships.

(2) THE COMPANIES DEPARTMENT administers the legislation relating to joint-stock companies, *i.e.*, the *Companies Act*, 1929, and controls official receivers who are in charge of the winding-up of various joint-stock companies. One of its important duties is to protect the public from fraud in connection with company promotion.

(3) THE BANKRUPTCY DEPARTMENT administers the law relating to Bankruptcy and Deeds of Arrangement, and controls

the Official Receivers in Bankruptcy. It is also responsible for auditing the accounts of Trustees in Bankruptcy.

In addition to the above Departments, there are three general Departments serving the Board of Trade which have little to do with the actual functions of the Board, but are concerned solely with internal administration, *viz.*: (*a*) the *Solicitors' Department*, which advises the Board of Trade on legal questions connected with the various matters administered by them; (*b*) the *Finance Department*, which attends to the financial aspect of all the services of the Board of Trade; and (*c*) the *Establishment Department*, dealing with questions of internal organisation and management.

Board of Trade Statistics.

The principal statistics of commercial interest issued by the Board of Trade are those relating to the external trade of the United Kingdom, industrial production at home and index numbers of British wholesale prices.

Summaries of statistics of external trade are published monthly, and detailed accounts appear annually. The figures concern the principal kinds of merchandise, distinguishing the trade with particular countries in the more important items. The accounts also include data of specie movements and the tonnage of vessels with cargoes entering at and clearing from British ports. Quarterly issues of the accounts are made showing the total value of the United Kingdom's trade with the chief foreign countries, the quantities of the various articles charged with duties, etc. At the principal ports of the United Kingdom, advance information relating to import and export trade is available to subscribers for this information.

THE "BOARD OF TRADE JOURNAL," the official publication of the Board, includes well-informed articles on various aspects of trade and gives a monthly review of trade, while every quarter the geographical distribution of overseas trade is analysed and compared with preceding periods. Every quarter, too, the overseas trade of the expired months of the year is revalued on the basis of current values in the corresponding period of the previous year and of 1924 in order that changes in volume and of average values may be determined. In the spring of each year highly important estimates are given of the nation's invisible receipts and payments and of its net balance of trade (see page 643).

The *Board of Trade Journal* also contains miscellaneous commercial and economic statistics, while monthly articles appear dealing with the course of wholesale prices at home and in France, Germany, Belgium and Italy; the production and wholesale prices of coal, iron and steel in this country, the United States and certain European countries; and the movements of the foreign exchanges.

In addition to its journal, the Board of Trade publishes three statistical abstracts: the *Statistical Abstract of the United Kingdom*, the *Abstract of the British Overseas Dominions and Protectorates*, and a *Summary of the Trade Returns of Certain Foreign and British Countries*. Finally, it publishes periodical statistics of industrial production in its *Industrial Census Reports*.

The Department of Overseas Trade.

The Department of Overseas Trade was formed in 1917 as a joint department of the Foreign Office and the Board of Trade, to take over the work of the former Department of Commercial Intelligence of the Board of Trade and of a part of the Foreign Trade Department of the Foreign Office. It has also taken over certain functions formerly undertaken by the Foreign Office in connection with Commercial Intelligence and with the Commercial Diplomatic and Consular Service.

The main object of the Department is to give every assistance and all possible information to merchants and manufacturers in their quest for overseas markets. To this end information on all subjects of commercial interest is collected in a convenient form for reference, and in the Department there is an enquiry room at which personal enquiries can be made on the various subjects dealt with by the Department, and a sample room in which are kept for examination specimens of manufactured articles which compete with British goods and of raw materials forwarded from abroad by consuls, trade commissioners and other officials. There is also a reading room in which are kept the latest British, Imperial and foreign official publications and trade directories.

This Department is responsible for the management of the British Industries Fair and for the Export Credits Scheme (see Chapter 34), and controls the services of Commercial Intelligence Offices within the Empire and in the principal foreign countries.

In the Empire.—*Trade Commissioners* are located in Canada, Australia, South Africa, India, New Zealand, Irish Free State, British East Indies and British East Africa. These trade commissioners are assisted by *Imperial Trade Correspondents* at a number of important centres. Where there are no trade commissioners, there are correspondents with whom the Department deals direct.

In Foreign Countries.—A service of officers is maintained which constitutes the Commercial Diplomatic Service attached to the British Diplomatic Mission. The officers in the highest grade, styled *Commercial Counsellors*, and in the two lower grades, *Commercial Secretaries*, are members of the Staff of the British Embassy or Legation in the district which they

serve. Where no Commercial Diplomatic office is stationed, Consular Officers are appointed, with duties of a like nature.

The main duty of trade commissioners and commercial diplomatic officers is to furnish up-to-date information for the use of British manufacturers and traders on such matters as: (*a*) contracts open for tender and other openings for British trade; (*b*) lists of overseas importers and suitable agents; (*c*) methods of marketing, credit conditions, terms of payment and conditions of competition abroad; (*d*) customs tariffs and regulations, legislation concerning trade marks, etc.; (*e*) sources of supply of raw materials and of goods not manufactured in the country; (*f*) statistics of imports and exports; and (*g*) particulars of shipping and inland transport facilities. The officers also prepare annual reports on the trade, economic and financial conditions in the countries to which they are appointed, and they aim at giving therein an estimate of future conditions, as well as a survey of the past year. The information, which is received continuously, is published mainly in the *Board of Trade Journal.*

Another form of service rendered by the Department consists in the compilation of lists of possible foreign buyers of British goods, classified according to various trades and kept up-to-date. These lists, which are not published, are available for consultation by *bona fide* traders. Other lists are kept of commission agents, solicitors, patents and trade marks agents, debt collection bureaux and trade enquiry offices.

Special private information, not published or issued generally, is also supplied to firms in the United Kingdom desirous of obtaining confidential information concerning the extension of their markets. Firms requiring this information must be registered, and information is communicated to them as received from the various officers and correspondents abroad.

Finally, the Department assists industry by negotiating commercial treaties and by bringing about the modification of tariffs and import regulations in other countries

The Overseas Trade Development Council.

This Council was set up in April 1930 by the Secretary of the Overseas Trade Department to assist his Department to examine the problems of the export trade, to study existing and potential markets, to review the general trend of trade, to investigate reasons for any decline and to suggest remedies. It consists of four leading Civil Servants and four financial and insurance experts from the City of London. It is presided over by the Secretary of the Overseas Trade Department and is assisted by a panel of representatives of industry.

The Council is largely responsible for the economic missions which leave this country periodically to survey markets in

foreign countries, such as those which in 1930 left for the Far East, South Africa, Scandinavia and South America. The reports of these missions are of tremendous value to traders in this country, as they amount, in effect, to market researches which, if conducted by an individual trader himself would cost him hundreds of pounds, whereas the information is available in handy booklet form for a few shillings.

The Ministry of Transport.

Established under the *Ministry of Transport Act*, 1919, to co-ordinate the work on roads and means of transport, this important Department has assumed all powers previously exercised by other Government Departments in connection with railways, tramways, inland waterways, roads, bridges and ferries, together with vehicles and traffic thereon, and, also, all harbours, docks and piers. It may establish transport services by land or by water, and these may be worked either by the Ministry itself or by persons appointed by the Ministry.

The Ministry is organised in several sections: *Railways and Finance; Docks and Canals; Road Transport and Highways*; and departments dealing with *Administration, Engineering*, and *Intelligence*. There is also an *Establishment Branch* and a *Registry*. Each of these departments is controlled by a Chief Engineer, or an Assistant-Secretary, whilst a *Railway Rates Tribunal* has been set up to assist the Minister.

RAILWAYS.—As from August 1914, this Department assumed control of the railways, and, under the *Railways Act*, 1921 (see Chapter 23), took over the powers previously exercised by various other Departments.

CANALS.—As from 23rd September 1921, the Ministry of Transport took over the functions formerly exercised by the Board of Trade with regard to canals. The Committee on Inland Waterways, appointed by the Minister of Transport in 1920, proposes to group the various canals in the country, and to this end has selected the River Trent and its connections as being most suitable for the experiment.

ROADS.—The Ministry of Transport also took over the powers of the Road Board and the Joint Roads Committee, together with certain powers of the Development Commissioners. It can, with the consent of the Treasury, construct and maintain new roads in any part of the United Kingdom, and for this purpose has power to acquire land.

The Road Fund, established by the *Roads Act* of 1920, is accumulated from payments made by the County and County Borough Councils out of the proceeds of duties on vehicles which they are empowered to levy.

ELECTRICITY.—Through the Board of Electricity Commissioners, the Ministry of Transport exercises powers under the *Electric Lighting Acts* and under any local Acts concerning

the supply of electricity. The *Central Electricity Board*, established in 1926, selects generating stations, provides for the standardisation of current and fixes tariffs for supplies. It is engaged on a vast scheme to establish throughout the country a network of electricity supply lines and undertakings.

The Ministry of Health.

This Department was established in 1919 to take over the duties of the Local Government Board, the Insurance Commissioners and the Welsh Insurance Commissioners, together with certain powers of the Board of Education with regard to the health of expectant and nursing mothers and of children under five years of age.

The Ministry is divided into the following divisions for purposes of administration: Local Government; Foods, Appointment of Medical Officers, etc.; Infectious and other diseases; Maternity and Child Welfare; Blind; Health Questions and the services of General Practitioners; Establishment and Intelligence; Audit, Accounts and Statistics of Local Authorities; House Production and Slum Clearance; Town Planning; Poor Law and Old Age Pensions.

It is thus made responsible for all matters affecting the health of the people, and in this connection is concerned with the administration of the *Poor Laws*, the *Unemployed Workmen's Act*, 1905, the *National Health Insurance Acts*, the *Widows', Orphans' and Old Age Contributory Pensions Acts* and the *Public Health Acts*. Also, it is responsible for controlling the work of local authorities, who must, for instance, obtain the sanction of this Department if they wish to exercise certain borrowing powers.

The question of central control of local authorities has become of vast importance and there is a tendency for the powers of the Government over the local authorities, as wielded by the Ministry of Health, to increase. The Ministry exercises control over local authorities by enquiries, statistical returns, audits and inspections, the latter being undertaken by a staff of inspectors and auditors with wide powers to obtain any necessary information.

The Ministry of Labour and National Service.

The Ministry of Labour was created in 1916 and took over the duties of the Board of Trade under the *Conciliation Act*, 1896, the *Labour Exchange Act*, 1909, the *Trade Boards Act*, 1909, and the *Unemployment Insurance Acts*. Its title was changed in 1939. The Ministry is responsible for the preparation of the Cost of Living Index Number, which is used as a basis for fixing wages in certain industries, and publishes current figures in the *Ministry of Labour Gazette*, published monthly.

The work of the Ministry is distributed over many divisions, the principal of which are the *Industrial Relations Department*, the *Employment and Insurance Department* and the *General Department*. The main work of these divisions is in connection with Trade Boards, Unemployment Insurance and Employment Exchanges, *i.e.*, matters concerning the relation of workers and employers, the protection of the worker against exploitation and the administration of Unemployment Insurance, all of which are dealt with at length in Chapter 50.

The Home Office and Ministry of Home Security.

This Department takes over any administrative work not assigned to other Departments. In addition, it carries out the extremely important function of acting as intermediary between the Sovereign and the people, involving, amongst other things, the exercise of pardon, but perhaps its most important function is the control of the police. The Metropolitan Police are directly under the Home Office, and though the police of the country as a whole are not under its immediate orders, it has supervisory powers in relation to their organisation, equipment and discipline. This office also controls the prisons and reformatory schools.

Its most important function from the point of view of commerce is the administration of Industrial Laws, among which are the *Factory and Workshop Acts*, and to the Home Office have to be made returns required from employers under the *Employers' Liability Acts* and the *Workmen's Compensation Acts*.

The Ministry of Home Security was established in 1939 to co-ordinate the Civil Defence arrangements, including *Air Raid Precautions* and similar emergency services. This office is combined with that of Home Secretary.

The Department of Scientific and Industrial Research.

The appointment of this Committee arose from the realisation, in the Great War, that British industries were dependent on foreign sources for certain essential commodities, and that they had fallen behind certain foreign countries in the application of science to industrial problems and to the development of new products and processes. Accordingly, by an Order in Council of 28th July 1915, amended by an Order of 6th February 1928, a permanent Committee of the Privy Council was set up to direct, subject to conditions laid down by the Treasury, the application of sums of money provided by Parliament for the organisation and development of scientific and industrial research. By a Charter of 23rd November 1916, amended by a Supplemental Charter of 27th April 1928, the members of the Committee were created a Body Corporate under the name of "The Imperial Trust for the Encouragement of Scientific and Industrial Research," to hold and dispose of money and

property for the purposes of the Committee. A separate Government Department was created in December 1916, for the service of the Committee.

The general policy of the Department has been not to replace individual action but to stimulate it, and especially to bring about a closer connection between research work and its application to industry. It was the intention of the Government to promote research schemes by the establishment of co-operative research associations, and, for this purpose, a sum of £1,000,000 was placed at the disposal of the Department for contribution towards *voluntary* research associations formed in various industries to work without profit. Firms joining such associations receive certain privileges, including the right (*a*) to put technical questions to the associations and to receive answers as far as lie within the powers of the body; (*b*) to recommend specific subjects for research and to have a voice in the selection of the programme of research; (*c*) to free or preferential use of any patents resulting from research; (*d*) to have specific research undertaken for them at cost price; (*e*) to have communicated to them the results of research; and (*f*) to receive the regular services of a bureau keeping in touch with technical developments at home and abroad.

The Department reserves: (1) the right to veto the communication of results of research to foreigners; (2) the right of communicating information to other industries for their use on suitable terms; and (3) the right of communicating information to other Government Departments. In practice, the free publication of information has been favoured, provided that British industry is not prejudiced and that subscribing firms have opportunities for the preferential use of the information.

The Department has also undertaken on its own account research work into problems of national interest, *e.g.*, fuel economy and food preservation, while special researches have been undertaken on part repayment terms for outside organisations and individual firms. Such researches are conducted only if the subject of the research is of national interest, and the Department has power to communicate results to other parties interested in the matter. Where no right of publication of results is given to the Department the applicant has to bear the full cost.

Twenty-six research associations have been formed under the Government scheme in the iron, non-ferrous metals, glass, motor and motor-cycle, cutlery, scientific instruments, electrical, cotton, woollen and worsted, silk, linen, leather, shale oil, photographic, prints and colours, cement, flour-milling, laundering, confectionery, food manufacturing and coal industries. Grants were originally made to these associations for a period of five years, but this period has been extended to allow for an expansion of their work.

Certain fields of research work exist which cannot be identified with any particular industry, as, for example, researches in food, fuel and timber. In such spheres, the interests of the consumer are of primary importance, and several boards have therefore been set up to conduct the necessary research at public cost. Examples are the National Physical Laboratory, founded in 1901 and transferred to the Department in 1918; the Fuel Research Board; the Building Research Station, Watford, which investigates such matters as the structure and strength of building materials and the effects of weathering; and the Forest Products Research Laboratory, which seeks to secure a more efficient utilisation of timber and to develop Empire timbers. Besides these, considerable food research is being made into such matters as cold storage, the freezing of meat and the preservation of eggs and fruit.

Close connection is maintained in all such work with other research organisations both in this country and in the Empire, including the Empire Cotton Growing Association, the Imperial Tropical College of Agriculture, the Imperial Institute and the Colonial Research Committee of the Colonial Office; and with the aim of providing an adequate supply of fully qualified technicians to meet the increasing demands for their services by industry, grants have been made, through various universities, to research students and workers.

The National Institute of Industrial Psychology.

Closely allied to the various institutions here described, but in no sense a Government Department or public organisation, is the National Institute of Industrial Psychology, which was incorporated in 1921 to promote the application of psychology and physiology to industry and commerce. It is a voluntary body of about 500 members, mainly employers of labour, but including also foremen, welfare workers and departmental managers. The income of the Institute, which is spent solely on extending its activities, is derived from subscriptions from members and from payments made by individual firms and industries for work undertaken by the Institute on their behalf.

Its investigations, which are undertaken by trained investigators who, during their investigations, live the life of the people who are the object of their studies, have been carried out in four main spheres: (*a*) the quality, productive capacity and efficiency of plant; (*b*) the elimination of factory waste; (*c*) the recruitment and training of labour; and (*d*) the length and distribution of hours of work. Investigators are also provided by the Institute at the request of individual firms, and particular attention has been given to the effects of overtime and of atmospheric conditions, and to lighting and motion study in their effects on productive capacity generally.

The Economic Advisory Council.

An extremely important step, promising great possibilities, was the appointment in January 1930 of an *Economic Advisory Council*, with the Prime Minister as chairman, to secure a wider and more intensive treatment of economic problems affecting the prosperity of the country. The Council was entrusted with the continuous study of developments in industry and trade and the use of national and Imperial resources, and was to make reports to the Cabinet on any matters falling within its scope. It was to study the effect of legislative and fiscal policy at home and abroad, and for this purpose was to keep in close touch with Departments affected by its work with a view to bringing about a concerted study of economic problems of vital national interest. It has power to initiate enquiries into any subject falling within its scope and to make proposals for legislation. The Council has, however, no administrative or executive powers and must not interfere in any way with the work of the various Government Departments.

In addition to the Prime Minister, the personnel of the Council includes the Chancellor of the Exchequer, the President of the Board of Trade, the Minister of Agriculture and Fisheries, together with a number of prominent industrialists and economists.

QUESTIONS BEARING ON CHAPTER 53

1. How does the Central Government of this country carry out its manifold activities?

2. Explain the functions of the Board of Trade and the different divisions of its work.

3. What ministries are responsible for: (*a*) railway and road traffic; (*b*) the administration of the Public Health Acts; (*c*) the consular services?

4. Through which agency would you expect the Government to obtain the bulk of its information relating to the position of unemployment in this country?

5. Account for the importance of the Department of Overseas Trade, and explain in what ways it interferes to assist the nation's industry and commerce.

6. In what ways are industry and commerce assisted by (*a*) the Home Office; (*b*) the Ministry of Health; and (*c*) the Ministry of Transport?

7. State what you know of the constitution and functions of the Economic Advisory Council.

8. In what ways is research into technical industrial matters conducted and fostered in this country? Give some account of the work which has been done in this direction.

9. Briefly explain the functions and objects of (*a*) the Industrial Fatigue Research Board; and (*b*) the National Institute of Industrial Psychology.

CHAPTER 54

THE STATE'S SHARE OF THE REWARD OF INDUSTRY

FROM the preceding survey of the work of those State Departments directly concerned with trade and commerce, it will be clear that the State must be ever widening the sphere of its activities. But just as an individual cannot operate without money, so a state must finance itself. The State has, however, only one source of income, *i.e.*, the pockets of the people, but, unlike the source of income of an individual, this source is comparatively unfailing and, within limits, national revenue can be increased as the needs of Government expand.

National Revenue.

The elements composing the total annual income of governments vary considerably in different countries, but the permanent revenues of most modern communities fall under two heads :—

(1) REGULAR REVENUES.

(*a*) Revenues from state ownership of public domains and public industries. In the former group are included the income from the state ownership of land or of shares in public companies, and from government buildings and housing schemes. Examples of the second class are incomes from postal, telephone and telegraph services, together with revenue from state-owned railway, canal, dock, water, gas and electricity undertakings.

(*b*) Revenues derived from the Public Purse, including taxation in all its forms, and fees for services such as the issue of passports.

(2) IRREGULAR REVENUES, which include items such as fines, penalties, gifts, indemnities, escheats and forfeitures.

The revenue accruing from state ownership and enterprise is the result of direct charges for services rendered, as, for example, for the supply of gas, the transmission of letters, the hiring of land or buildings and the carriage of persons and goods by rail and road. The State in rendering these services occupies a

position very similar to that of a private concern, and the charge made is based on an estimate of the value of the service.

UNITED KINGDOM NATIONAL REVENUE AND EXPENDITURE for Year ending 31st March 1939.

(000's omitted.)

Revenue.	Exchequer Receipts.	Expenditure.	Exchequer Issues.
	£		£
Customs	226,326	Interest and Management of National Debt	216,781
Excise	114,200		
Total Customs and Excise	340,526	Northern Ireland Exchequer	9,459
Income Tax	335,901	Other Consolidated Fund Services	4,825
Surtax	62,530		
Estate, etc., Duties	77,430		
Stamps	20,980	Total Consolidated Fund	231,065
National Defence Contribution	21,890	Army, Navy, Air Force	254,406
Other Inland Revenue	1,550	Civil Services and Revenue Departments	441,309
Total Inland Revenue	520,281	Total Supply Services	695,715
Motor Vehicle Duties (Exchequer Share)	35,608	Total Ordinary Expenditure	926,780
Total Tax Revenue	896,415	Sinking Fund	13,219
Crown Lands	1,330	Total Expenditure	939,999
Sundry Loans	5,698		
Miscellaneous Receipts	12,941	Total Self-balancing Expenditure (Post Office and Broadcasting)	78,950
Post Office, net receipts	9,500		
Post Office Funds	1,400		
Total Non-Tax Revenue	30,869		
Total Ordinary Revenue	927,284		
Total Self-balancing Revenue (Post Office and Broadcasting)	78,950		
Total Revenue	1,006,234	Total Expenditure	1,018,949
Deficit	12,715		
Grand Total	1,018,949	Grand Total	1,018,949

Taxation.

The most important and most regular source of public revenue is taxation. A tax is a compulsory contribution made to Government and bears no special relation to the services rendered by the State to the person taxed. The money paid for a motor-car licence, for example, is conditional upon a

person's owning a car, but is not made in return for any particular service rendered by the Government in connection with the car.

Taxes are divided into two classes: *Indirect Taxes*, which are levied on goods and passed on to the consumer in the price he pays, as, for example, customs duties; and *Direct Taxes*, which are intended to be borne by the persons from whom they are demanded, as, for instance, the income tax.

ADVANTAGES OF DIRECT TAXATION:—

(*a*) Low cost of collection.
(*b*) Since payment is made direct to the State, no more is contributed than is actually received.
(*c*) The tax-payer knows exactly how much he pays.
(*d*) The State knows the sources of revenue, and can arrange accordingly.
(*e*) The payment of a direct tax stimulates the interest of the tax-payer, and should tend to make him a better citizen.

DISADVANTAGES:—

(*a*) Difficulty in calculating a just basis of assessment for all classes.
(*b*) Some tax-payers object to being kept cognisant of their liability to pay, and prefer to be taxed "in the dark."
(*c*) Possibility of evading payment. A direct tax has been called "a tax on honesty." Evasion is encouraged, more particularly when the rate of tax is high; after the Great War there were many convictions on account of concealments resulting in frauds on the Inland Revenue amounting to large sums. This disadvantage is being gradually overcome in this country through improved methods of collection.

ADVANTAGES OF INDIRECT TAXATION:—

(*a*) The tax-payer does not feel the burden so directly.
(*b*) Easy method of collection.
(*c*) Enables those with small incomes to be reached.
(*d*) Difficulty of evasion.
(*e*) Payment can be made convenient; small instalments are paid at the time of purchase.
(*f*) Productivity can easily be increased, unless the demand for the article is very elastic.

DISADVANTAGES:—

(*a*) Indirect taxation is not always equitable. Taxes on necessaries mean a lighter burden for the wealthy than for the poor, who spend a relatively large proportion of their incomes on necessaries.

(b) The revenue is not certain, especially when the tax is on luxuries, the consumption of which declines in times of depression.

(c) An increase in the rate does not necessarily cause an increase in the yield.

(d) Cost of collection is sometimes heavy, as where customs and excise officials must maintain a careful supervision.

(e) The tax often causes a rise in price above that actually justified by the tax. A tax amounting to a fraction of a halfpenny may cause a rise in price of at least a halfpenny. The State thus receives less than the taxed person pays.

(f) The tax may be shifted on to people on whom it was not intended to levy it.

(g) Inconvenience to trade.

(h) Ignorance of payment is not desirable. The fundamental objection is that *it is difficult to trace the full incidence of an indirect tax.* In the case of a direct tax the impact and incidence are on the same person.

The British Tax System.

The British system of taxation is a composite system, comprising both direct and indirect taxes, but with the tendency during recent years for direct taxes to provide an ever-increasing proportion of the total revenue. The table on page 819 gives some idea of the sources of our National Revenue, and in the following paragraphs the nature and composition of the principal taxes included therein are briefly explained:—

CUSTOMS DUTIES.—Customs Duties are indirect taxes which are imposed on imports chiefly of luxuries and semi-luxuries. They are of two kinds: *specific* and *ad valorem. Specific duties* are levied in proportion to weight or number without regard to value, while *ad valorem* duties are levied in proportion to the value of the commodities taxed.

EXCISE DUTIES are levied, nowadays, very largely on home-produced intoxicants and on certain home-produced manufactures consumed at home. Commodities of the same kind are taxed when imported. The term also applies to vehicle, livery, dog and gun licences, and licences to conduct such trades as pawnbroking and auctioneering, or to sell beer or tobacco.

ESTATE DUTIES.—Estate Duties are levied on wealth, landed and personal, passing at death. There are three taxes: (a) *the estate duty*; (b) *the legacy duty*; and (c) *the succession duty*. Estate Duties have of recent years become an increasingly productive source of revenue.

STAMP DUTIES.—These duties are imposed on certain instruments and documents, such as bills of exchange, promissory notes, cheques, receipts for the payment of money, title-deeds

and agreements of many kinds. The duty is enforced by making the legal validity of the instrument dependent on its being correctly stamped. Stamp Duties are also payable on certain licences and registrations, as, for example, the registration of a company, pawnbroker or solicitor, and on certain commodities, such as patent medicines and playing cards.

MINERAL RIGHTS DUTY.—Of the four kinds of Land Value Duties introduced in the Budget of 1909, only the Mineral Rights Duty survives. This is a tax of 1*s*. in the £ on the rental value of all rights to work minerals and of all mineral way-leaves.

MOTOR VEHICLE DUTIES.—The Motor Vehicle Duty is an annual tax imposed on the owners of automobiles. The tax is based on the horse-power of the car and is in the nature of a luxury tax, since it permits of an additional contribution from a class which may be assumed to be able to afford a tax if it can afford the luxury of motoring. The proceeds of the tax contribute towards the upkeep of roads, which, with the recent vast growth in mechanical traffic, has become considerably more costly.

THE INCOME TAX.—The Income Tax is by far the most important tax in the British fiscal system. It provides the greatest revenue and has proved to be a sound financial instrument. First introduced in 1799, it was repealed in 1802, levied again, and again repealed in 1816. It was reintroduced in 1842, and, subject to variation at the hands of different Chancellors, has since remained an integral part of the fiscal machinery.

The Income Tax year runs from the 6th April to the following 5th April, and all persons ordinarily resident in the United Kingdom, whether British subjects or not, and all persons not resident in the United Kingdom, whether British subjects or not, in so far as they derive income from property, trade, profession, vocation or employment in the United Kingdom, are required to pay income tax on the amount of their taxable income received during that period.

For purposes of economy and simplification, income tax is, wherever possible, "collected at the source," *i.e.*, at the source of income, so that most forms of "unearned" income are already taxed when they come into the hands of the recipients. This system has two main advantages :—

(*a*) It ensures that the tax is properly accounted for in cases where evasion would be perfectly easy ;
(*b*) It effects considerable economy in the work and expense of collection.

Thus, when dividends are paid by a company, income-tax at the standard rate ruling when the payment fell due must be deducted by the Company in computing the amount due to each shareholder. The company must render the shareholders

a statement of the tax deducted, and usually this is achieved by preparing the warrant in two parts, the "top-half" being a statement of the income-tax deducted and the bottom half (which is detachable) being the actual warrant for payment.

Similarly, when annual interest on debentures, or on a mortgage, is paid, income-tax must be deducted at the current rate and accounted for to the Commissioners of Inland Revenue.

Another instance of collection at the source occurs where a tenant deducts income-tax from his rent.

The Five Schedules.

Incomes subject to tax are classified within one of the five *Schedules, A to E.*

Schedule A relates to income arising from the *ownership* of lands, tenements, hereditaments or heritages in the United Kingdom, *i.e.*, the Landlord's Property Tax. The occupier pays the tax, but an appropriate adjustment to the agreed rent must be borne by the landlord if the owner and tenant are two different persons.

Schedule B covers income from profits which arise from the occupation of lands in the United Kingdom, *i.e.*, the Farmer's Tax. As farming profits cannot easily be assessed, the basis of assessment on land used for farming is the gross annual value. A farmer may, however, claim to be assessed under Schedule D instead of under Schedule B, *i.e.*, on the amount of his actual profits instead of a more or less arbitrary figure. Under this schedule the tax is borne by the *occupier* and not by the owner if other than the occupier. A person who both owns and occupies the land will be assessed under both Schedules A and B.

Schedule C covers interest, annuities or dividends, payable out of any public revenue, whether at home, in the Dominions, or in foreign countries, *i.e.*, the Investor's Tax. The assessment in this group is based on the actual amount of interest, etc., for the fiscal year. The levy is made on the bank or agent to whom payment is entrusted, and tax is deducted by him at the time of payment. The tax must be accounted for by him to the Revenue authorities.

Schedule D relates to profits of trades and professions and any form of annual income which does not come under any of the other Schedules, *i.e.*, the Business Man's Tax. The basis of assessment under this schedule is the profits of the business for the preceding year. Certain allowances from gross profits can be claimed in respect of rent or net annual value of business premises; repairs to plant, buildings, tools, utensils, etc. local rates; bad and doubtful debts; advertising and insurance expenses; and other expenses exclusively incurred for trading purposes.

Schedule E covers salaries, fees, pensions and stipends

earned in respect of any office or employment for profit, *i.e.*, the Employee's Tax. The tax is collected direct from the persons in receipt of the income. This schedule embraces all salaries, wages, bonuses, commissions, directors' fees and all remuneration arising from any employment. The basis of assessment is the total income of the preceding year, but certain allowances and reliefs, detailed below, are permitted.

Allowances to Individuals.

In order to make the assessment of income tax as equitable as possible, all individuals subject to the tax are entitled to certain allowances which are fixed by the Finance Acts. These allowances include a *Personal Allowance*, being a proportion of income which is entirely free of tax, and is greater in the case of a married man supporting his wife than in the case of a single man; an *Earned Income Allowance*, being a proportion of earned income which is relieved of all tax; and allowances for *Children*, *Dependent Relatives* and *Female Housekeepers*. Moreover, relief may be claimed in respect of *Life Insurance* payments and certain other charges on income, while, after all allowances are made, a reduced rate of tax is charged on all income up to a certain limit.

Surtax.

Surtax is an additional tax imposed on all incomes in excess of £2000 on a graduated scale. It is regarded as a logical corollary to income tax.

Administration of Income and Surtax.

The chief Government Departments concerned with the administration of these taxes are the Board of Inland Revenue; the Special Commissioners; the General and Additional Commissioners; H.M. Inspectors of Taxes and the assessors and collectors of Taxes.

The Burden of Income Tax.

The burden of high income tax lies chiefly in its psychological effect on the more speculative type of business. But there is an important indirect effect on production resulting from the reduced purchasing power of the community. Heavy taxation reduces the amount available to be spent or saved. But though the total demands of the community may be reduced, this is offset to some extent by the fact that the revenue collected is spent by the Government even though expenditure of this kind may be less productive. The reduction in saving has a more serious effect since industry is deprived of some of the capital on which future expansion depends.

A further argument put forward against a heavy income tax is that it discourages the building up of reserves. Many industrialists claim that a deduction from assessable profits should be allowed in respect of allocations to reserves which, at present, bear the full burden. There is undoubtedly much to be said for this claim, but the fact remains that the country is pledged to certain expenditure, and income must be found to meet it.

The National Defence Contribution.

Heavy expenditure on the national defence services was responsible for the introduction in 1937, of a new tax, known as the National Defence Contribution. This is a tax on the profits of all trades and businesses, within the five years commencing 1st April 1937, at a flat rate of 5 per cent. for companies and 4 per cent. for unincorporated businesses. Businesses whose profits are below £2000 per annum are exempt from the tax, and the full rate of tax does not operate until profits exceed £12,000. The amounts paid in respect of the N.D.C. are to be deducted before assessing profits for Income Tax purposes.

The Excess Profits Tax.

The principle behind the N.D.C. was that part of the cost of rearmament should be borne by the profits of industry. With the outbreak of war in September, 1939, another principle came to the foreground, *viz.*, that excess profits arising out of the war should not be left entirely in the hands of the profit-makers. Accordingly, the Excess Profits Tax was imposed by the *Finance* (*No.* 2) *Act*, 1939. It is a levy of 100 per cent. on any excess of the profits over the profits for a pre-war standard in respect of all trades and businesses (with a few exceptions). The tax is wider in scope than the N.D.C., for businesses making a profit of less than £2000 per annum, investment companies and public utility companies are included.

The National Defence Contribution still remains, and it is provided that computations shall be made for the purposes of both the N.D.C. and the E.P.T. and whichever tax is the higher over the cumulative accounting periods shall be charged.

LOCAL TAXATION

Local authorities undertake certain important functions ancillary to those of the Central Government, and to carry them out they require a large revenue. To varying degrees local authorities have assumed trading functions, particularly those connected with the supply of certain essential services, and we find them controlling municipal banks, swimming baths, the supply of water, electricity and gas, and the provision of tramway, bus and sanitation services, many of which yield handsome

profits. But, despite such activities, local authorities rely for the bulk of their income on *local rates* and *Exchequer Grants*.

Rates are levied upon real property, *i.e.*, upon houses, trade premises and land, the basis being the *rateable value* of such property, which is taken as the "*rack*" rent, *i.e.*, the rent at which it might reasonably be expected to let free of all the tenant's usual rates and taxes, with reasonable allowances for repairs and insurances.

Rates are paid by the actual occupiers of land or buildings, and they are assessed at so much in the £ on the rateable value. The rate varies from year to year—increasing when the local authority needs further funds, and decreasing when expenses are reduced or when the value of property in the vicinity rises.

The system of local rating is now governed by the *Rating and Valuation Acts*, 1925 and 1932. These Acts consolidated all rates and considerably simplified the rating machinery.

The Burden of Local Rates.

While, in the main, national taxes do, so far as is possible, conform to the recognised canons of taxation, local rates fail to satisfy the prime canon of equity. That each person should contribute to the costs of local administration in proportion to the value of the property he occupies is but a very rough and ready basis of computing ability to pay. Its application to commercial concerns is particularly unfair. A jeweller, for example, can occupy a smaller shop than an ironmonger. He will pay lower rates, yet in all probability his profits from the business (and hence his ability to pay) are considerably higher. Again, the size of a factory is no indication of the extent of its profits, *i.e.*, of the ability to pay rates, *cf.* an engineering works and a biscuit factory.

Even more harmful, however, is the fact that rates increase costs of production. Local rates are imposed on all concerns, whether profits are being made or not. They therefore increase standing charges, and so increase costs of production. In particular, they reduce the competitive power of an industry in a highly-rated area as compared with one in a low-rated area. This may be particularly important in international trade where our industries may be competing with foreign firms not subjected to this disadvantage. The system of *de-rating* has done something to remedy the position, but has not entirely corrected the injustice.

Derating.

Under the *Local Government Act*, 1929, which came into force in October, 1929, it was provided that all industrial premises, *e.g.*, factories and workshops, should henceforth be

rated at one-fourth of their rateable value; the same applies to "freight-transport" undertakings, *i.e.*, railways and canals, on condition that the saving coming to them in this way would be offset by reductions in certain types of freight charges. At the same time agricultural land was entirely relieved of rates. The object of these provisions was to free essential industries from some portion of what had come to be recognised as the unduly burdensome load of taxation.

It was estimated that the loss of rates-income to local authorities following this reform would be £24,000,000, and that this, together with the abolition of certain "Grants-in-Aid" from the National Exchequer, would result in a total reduction of £30,000,000 in the receipts of the local authorities. To make up this loss, it was provided that the Central Government through the Exchequer should make to the local authorities new grants based on certain new principles of calculation, the main factors of which are the density of population and the general prosperity of each area as indicated by the rateable value per head and the amount of unemployment in the area.

Certain other reforms were made, whereby the county was made the administrative unit for poor relief and the maintenance of the more important roads. This reform involved the disappearance of the local Boards of Guardians and is intended to lessen the inequality of the local burden and to improve administration.

The Derating Scheme has been criticised on the ground that it relieves all industries irrespective of their necessity, and therefore does not concentrate relief on the distressed areas. The most important alternative suggestion is that the site value of land should bear a much heavier share of the composite rate, levied on land and buildings, than it now does. This, of course, is based on the idea of securing for the community a portion of the "unearned increment" accruing to land-owners.

Although the criticisms are to some extent justified, it can scarcely be doubted that, on the whole, the reform is a good one and that it should have highly beneficial results on industry. Under the old plan the anomalous position could exist in an industrial area of local factories and workshops paying heavily for the upkeep of libraries, public parks, baths and other similar social amenities from which they derived little *direct* benefit. The reduction in the assessable value of such industrial properties to one-fourth represents an attempt to level up the disparity.

PUBLIC BORROWING

This chapter would not be complete without some reference to our National Debt. The Debt consists mainly of :—

(a) THE FUNDED DEBT, representing loans which are repayable only after a long period, or which are redeemable only at the option of the Government, *e.g.*, Consols, the 3½ per cent. Conversion Loan, and the 3½ per cent. War Loan.

(b) THE UNFUNDED DEBT, representing loans raised for current expenses and for temporary purposes, *i.e.*, redeemable loans such as Treasury Bills, Exchequer Bills and Bonds, and the various forms of loans raised during the Great War. These loans are all repayable within a comparatively short period.

The accompanying table, from the *Economist* of 18th April 1936, gives the position of the various items comprising the National Debt at 31st March 1939 :—

BRITISH NATIONAL DEBT.

	£Mn.
2½ per cent. Consols and Annuities	300
4 per cent. Consols	401
2½ per cent. Conversion Loan	206
3 per cent. Conversion Loan	302
3½ per cent. Conversion Loan	739
4½ per cent. Conversion Loan	363
5 per cent. Conversion Loan	323
Term. Annuities	13
Debts to Banks	14
3½ per cent. War Stock, 1932	1911
2½ per cent. Funding Loan	200
2¾ per cent. Funding Loan	101
3 per cent. Funding Loan	144
4 per cent. Funding Loan	349
2½ per cent. National Defence Bonds	100
3 per cent. National Defence Loan	80
4 per cent. Victory Bonds	197
Treasury Bonds	100
National Savings Certificates	384
External Debt	1032
Floating Debt—	
Treasury Bills	892
Ways and Means Advances	28
TOTAL DEAD-WEIGHT DEBT	8179

The existence of a National Debt is sometimes said to have certain advantages, such as the provision of a safe investment for trustee funds and bank reserves. It is evident, however, that the huge debts which have been created as a result of the Great War must be burdensome to the nations concerned, and the world is slowly waking to the fact that permanent progress cannot be made until some sweeping provision is made for their reduction and for the consequent relief of part of the crushing burden of taxation in this and other countries.

Methods of Borrowing.

The Government, when faced with the need for raising loans, has several methods open to it, each of which has its advantages and disadvantages.

BORROWING BY LOANS FROM THE PUBLIC is beneficial in its effect on national efficiency, provided the loans are obtained by voluntary subscription. Patriotism and the spirit of citizenship are encouraged; all classes are induced to take an interest in the country's welfare; thrift and hard work are rewarded by an interest in the nation's finances, and this fosters a vigilant watch over the national expenditure and a desire for economy in Government administration. Moreover, the direct contact between Government and citizen, and the receipt of interest, foster the desire to save more. This acts as an incentive to industry and production, while national efficiency and prosperity are enhanced. The issue of War Savings Certificates (now known as National Savings Certificates) was started during the Great War mainly to encourage the small investor.

BORROWING FROM THE BANKS in the form of Treasury Bills is less efficient, as the individual or personal element is wanting; but the system of short-dated loans enables the banks to employ their surplus funds to advantage, and allows the Government to obtain financial accommodation necessary to tide over short periods when revenue is not coming in sufficiently fast to cover expenditure.

There are, however, strict limits to borrowing from the public or from banks. The industrial and productive enterprises in the country require large supplies of capital, and if the Government draws too heavily on these funds it risks hampering seriously the productive capacity of the nation. There is also the danger in borrowing from the banks that an inflation of credit may take place.

WAYS AND MEANS ADVANCES are probably the worst form of present-day borrowing by the Government, and should be used only for their proper purpose, to tide over times of exceptionally heavy disbursements. Borrowing from the Bank of England in this way is simply putting off an evil from day to day, for the money must be found in some way, and temporary borrowing of funds, though no doubt very convenient, must be condemned. It has also the same danger as all borrowing from banks—that of inflation. Moreover, a burden of floating debt engenders lack of faith in the national stability and finances, and is always regarded with suspicion both at home and abroad.

Long-Period Loans v. Short-Term Borrowing.

By far the best way of raising money to meet extraordinary expenditure, such as that incurred for war purposes, is by *long-period loaning*; but this is true only so long as the borrowing

does not unduly deplete the capital available for productive purposes. Borrowing is beneficial only if the funds are used for the production of further wealth, but loans for unproductive purposes, such as war, diminish capital and are a loss of wealth to the community. Wars should be financed, so far as is possible, by taxation; but there is a definite limit to the burden of taxation, and when this limit is reached borrowing is inevitable. Long-period loans are to be preferred, where loaning is resorted to, because the sacrifices undertaken for the good of a nation are distributed over future generations and over a longer period, during which wealth can be produced and trade and industry developed to enable repayment to be made at a smaller relative sacrifice.

Short-Term Borrowing should be avoided as far as possible, for it is neither more nor less than an expedient, postponing the evil to a later day, and should be resorted to only when there is a clear possibility of early repayment. The "floating debt" of this country amounts to a huge total. Enormous sums have been borrowed from the public on "Treasury Bills." The greatest objection to this form of loan is that no check exists on the amount of the borrowing, which is entirely in the hands of Government officials. There is no such publicity as in the issue of a large public loan, and the difficulty of providing repayment always results in maintaining the rate of interest at a high level.

Reduction of the National Debt.

Among the several ways in which the indebtedness of a country may be redeemed are the following:—

(*a*) *Application of surplus annual revenue.*
(*b*) *Taxation* to pay off capital.
(*c*) *Provision of a Sinking Fund:* (1) to accumulate capital to pay off debts, or (2) to provide terminable annuities.
(*d*) *Redemption by purchase* of stock on the market when it stands at or below par.

The burden of the National Debt may be reduced not only by reducing the actual amount thereof but also by reducing the rate of interest payable thereon, *i.e.*, by *conversion* of the existing issue into stock bearing a lower rate of interest. Conversion to a lower rate is a difficult matter, and requires a good state of public credit, prudent administration and punctual payment of interest. Successful attempts have already been made in this direction in the United Kingdom, and it is anticipated that the rate at which the Government can borrow will fall still further, thereby making such operations an easier matter.

Sinking Funds.

One of the most satisfactory forms of debt reduction, either for a private or a public body, is the sinking fund system. The 1930 Budget laid down that a fixed sum of £355,000,000 should be allocated annually to debt charges, *i.e.*, to the payment of interest and repayment of capital; moreover, it was decided that when in any year a deficit occurred the amount of the deficit should be a definite charge on the revenue of the following year. Unfortunately, the budgetary difficulties of 1931 caused the principle of a "fixed debt charge" as originally conceived to be abandoned. The fixed debt charge is now the amount necessary to cover the cost of debt interest and management, the sinking fund benefiting only if there is a revenue surplus.

Sinking funds are also used by borrowers who are required by the terms of their loans to repay borrowed moneys within certain fixed periods. Each year a certain proportion of the amount borrowed is put aside and invested in gilt-edged securities, and, when the total amount of money for which the sinking fund was created becomes available, the investments are realised and the liability is extinguished. Thus, if a municipality desires to raise a loan of £500,000 at 5 *per cent.*, repayable in 30 years, it must determine what sum will have to be set aside each year (accumulating at compound interest) in order to amount to £500,000 at the end of 30 years. The calculation must be made after allowance for income tax and depreciation of value in the securities in which the instalments are invested. The sum is ascertained by reference to a book of tables of compound interest, and depends upon the rate of yield of the selected securities. The interest on the loan must meanwhile be paid annually out of revenue, but, if necessary, the allocation to sinking fund may be made to cover both capital and interest.

Whilst the sinking fund method of redemption is generally very effective, it has the disadvantage that any failure to stand by the arrangements results in a serious loss of prestige by the borrower; it may, in fact, be said that an ineffective sinking fund is worse than none at all.

Local Borrowing.

Enormous debts have been incurred during the past half-century by local authorities. The funds so borrowed have been used for various socially useful works of a permanent nature, such as harbours, docks, water-supply, lighting and tramways. Huge loans have also been raised for housing schemes. The funds are raised independently by each of the authorities, and are borrowed on the security of the revenue of the district or town concerned. Unfortunately, wide publicity and intelligent criticism are often wanting; while local prejudices and interests, and ignorance of sound financial principles, often lead to extravagance and inefficient distribution. The

Ministry of Health's control of these loans has therefore to be carefully exercised, so that the loaning and conditions of repayment may be put on a proper basis.

Much controversy exists with regard to the sphere of municipal enterprise. Some say that it should not be further extended, others say that many of its functions should be transferred to the Central Government, whilst yet others claim that the authorities have not yet reached the limit of their useful operations. This is a matter of too great complexity to be discussed here. Centralisation has its advantages, but it lacks the local knowledge which is sometimes needed. On the other hand, unchecked borrowing by local authorities may be attended by abuses and inefficiency. Both sides of the question need careful consideration.

QUESTIONS BEARING ON CHAPTER 54

1. Explain the difference between direct and indirect taxation. (*C.A., Inter.*)

2. Contrast the following, emphasising the principal points of similarity and difference: Ways and Means Advances, and Treasury Bills. (*S.A.A., Inter.*)

3. (*a*) What is the dominant object of Conversion Schemes by the Treasury?

(*b*) Mention some of the essential conditions which should obtain when launching sound Conversion Schemes. (*A.I.C.A., Inter.*)

4. Discuss the statement that "the limitation of armaments by all nations would cause an improved state of trade throughout the world." (*A.I.C.A., Final.*)

5. (*a*) What may be said to be the twofold object of a Sinking Fund as regards countries, local authorities, or companies?

(*b*) What is the general effect as regards national finance of an ineffective sinking fund policy? (*A.I.C.A., Inter.*)

6. Enumerate the principal headings of National Income and National Expenditure of your country of residence. (*S.A.A., Inter.*)

7. According to official figures, the national expenditure per head of population was £4 6*s*. 5*d*. in 1913–14, and £18 12*s*. 6*d*. in 1926–27.

What effect, in your opinion, has this increase in relation to—

(*a*) Home industry;
(*b*) Foreign trading?

(*S.A.A., Final.*)

8. "The burden of rates and taxes is severely felt by manufacturers in this country." Discuss this statement, and show the merits or demerits of a relief in rates as opposed to a relief in taxation from the points of view of the manufacturer, unemployment and the revenue of the country. (*S.A.A., Inter.*)

9. Enumerate the advantages and disadvantages of a tax on "Turnover." (*S.A.A., Final.*)

10. "In round figures, inland revenue taxation takes £400 millions, while Customs and Excise receipts come to £250 millions, or about 15 per cent. of the total income of the nation. A consideration of these figures shows the extent of the burden which the earning power of the country has to carry at the present moment."

The above paragraph recently appeared in the financial columns of a daily newspaper. State concisely the direct effect of the statements contained therein. (*A.I.C.A., Inter.*)

APPENDIX I

GLOSSARY OF COMMERCIAL TERMS AND PHRASES

Abandonment.—A term used in Marine Insurance to signify the transfer by the insured of all interest in the wreckage in return for an agreed compensation.

In legal jargon the term signifies the relinquishment of legal proceedings.

Abatement.—An allowance made in respect of a purchase, *e.g.*, a discount for prompt payment.

Acceptance.—The act of a drawee of a bill of exchange, who signifies his willingness to comply with the order of the drawer.

Acceptance for Honour.—The acceptance of a dishonoured bill by a stranger thereto, who desires to protect the interests of one of the parties

Accommodation Bill.—A bill of exchange accepted by the acceptor to accommodate one of the parties thereto.

Accommodation Party.—A person who puts his name on a bill, thereby accepting liability, for the purpose of lending his name and reputation to another party.

Account Sales.—The statement which a selling agent sends to his principal, setting out details of the gross proceeds with deductions for expenses and charges.

Account Stated.—An agreement made verbally or in writing between two parties, evidencing the state of indebtedness existing between them.

Accrued Interest.—Interest which has accumulated on any loan or account and still remains unpaid.

Actuary.—One skilled in the calculation of the value of reversions, annuities, etc.

Ad Referendum.—When a contract is made "*ad referendum*" the implication is that although the contract is practically complete, there remain certain minor details to be settled.

Ad Valorem.—Calculated in proportion to the value of the subject-matter. Stamp duties and Customs duties which are "*ad valorem*" are charged in proportion to the value of the subject taxed.

Adjournment.—The postponement of a meeting to some later date. An adjournment cannot take place unless the first meeting is actually held.

Adjudication Order.—An order made by the Bankruptcy Court declaring that a person is bankrupt, and vesting his property in a trustee for the purposes of administration for the benefit of his creditors.

Advance Freight.—Freight which is payable before the voyage begins.

Adventure.—Another word for Consignment (see p. 837).

Advice Note.—A memorandum informing the recipient that a particular transaction has been carried through on his behalf.

Affidavit.—A written statement sworn before a person who has legal authority to administer oaths, *e.g.*, a Commissioner for Oaths.

After Date.—Used on a bill of exchange to indicate that the maturity thereof shall be calculated at a fixed period after the date on the bill.

After Sight.—On a bill of exchange, means that maturity is to be calculated at a specified period from the date of presentation to the drawee.

Agenda.—The programme of business to be performed at a meeting.

Agio.—A term signifying the difference between the nominal and actual values of a monetary unit. When paper money becomes depreciated the premium at which gold stands to the paper is known as the "agio."

Agreement.—An arrangement made between two persons to perform or to refrain from performing a specified act. When the agreement is intended to be legally enforceable it is termed a contract.

Alien.—A person born in another country, who consequently does not enjoy the privileges of citizenship of his country of residence.

Allonge.—A slip which is attached to a bill of exchange to provide room for further indorsements.

Allot.—To share out or apportion anything. Used, in reference to the capital of a company, to designate the apportionment of the capital amongst those who have applied therefor.

Amortisation or Amortisement.—The writing down or reduction of stock, either by setting aside profits for the purpose or by building up a sinking fund.

"and Reduced."—These words, appearing after the name of a company, signify that it has recently reduced its capital.

Annuity.—The annual payment of a fixed sum for the lifetime of a certain person or for a fixed period of years. The second type is known as a "terminable annuity."

An annuity can be purchased from an insurance company.

Antedate.—To date a document prior to the day on which it is drawn up.

Appraiser.—A person holding a licence entitling him to carry out valuations of goods, estates, etc. His valuation is known as an appraisement.

Arbitrage.—The business of buying commodities, securities or foreign exchange in one place and selling in another, thereby gaining a profit by taking advantage of momentary differences in prices.

Arbitration.—The settlement of disputes by referring them to an independent judge, known as an "arbitrator."

Articles of Association.—The rules governing the internal management of a joint-stock company.

Articles of Partnership.—The conditions and terms agreed upon by persons entering into a partnership.

As per Advice.—Used in a bill of exchange to indicate that the drawee has already been notified of the draft.

Assignment.—Transfer of the title in a debt or other form of personal property.

Assurance.—A contract to pay a certain sum on the happening of an event which is bound to take place, *e.g.*, death.

At Sight.—Used on a bill of exchange to signify that the bill should be paid immediately on presentment and needs no acceptance.

Auction.—The sale of goods in public under the direction of a licensed auctioneer. The goods go to the highest bidder.

Audit.—The periodical inspection of the books of account of a business by a person skilled in that work.

Average.—(*a*) General: The apportionment between the owners of the ship and cargo of losses or expenses sustained where part of the cargo or ship has been deliberately sacrificed for the safety of the ship and cargo generally.

(*b*) Particular: Loss sustained through damage to the ship or cargo which is not deliberately incurred for the avoidance of a common danger.

Average Bond.—A document signed by persons contributing to an adjustment of general average, whereby they take delivery of cargo on giving an undertaking to pay their fair share towards the loss.

Back a Bill.—To "back" a bill is to lend one's name to one of the parties thereto by indorsing it, thereby rendering oneself liable thereon.

Back Freight.—A part repayment of freight claimed from a shipowner who is to blame for non-delivery or partial non-delivery of goods.

Backwardation.—A fee sometimes payable by a "bear" on the Stock Exchange who desires to "carry over" a sale of shares which he is unable to deliver on Settlement Day.

Bad Delivery.—Used on the Stock Exchange and other markets to indicate a tender of securities, etc., under a contract of sale where the documents, etc., tendered are not regular according to the rules of the market.

Bailment.—The delivery of chattels by one person to another, on condition that, in certain circumstances, they are to be returned or dealt with according to instructions.

Balance of Trade.—The balance between the values of imports and exports of a country.

Balance Sheet.—A statement of the assets and liabilities of a business at a certain date.

Bank Note.—A promissory note issued by a bank payable to bearer on demand.

Bank of Deposit.—A bank whose principal business consists in accepting money from its customers on deposit.

Bank of Issue.—A bank which issues its own bearer notes payable on demand. The Bank of England is the only bank of issue in England.

Bank Rate.—The advertised minimum rate at which the Bank of England will discount approved bills of exchange for persons other than its regular customers.

Bank Return.—A weekly statement issued by the Bank of England in accordance with the Bank Charter Act, 1844, setting forth the assets and liabilities of the Banking and Issue departments.

Bankrupt.—One who, having been adjudicated bankrupt, *i.e.*, unable to pay his debts in full, has not yet obtained his discharge which frees him from all further liability for the debts on which he became bankrupt.

Barratry.—A wrongful act committed by the master or crew of a vessel which prejudicially affects the owner or charterer.

Barter.—The direct exchange of one commodity for another without the use of money.

Bear.—One who sells stocks in the hope that prices will fall, so that he may buy in at a lower price.

Bearer Debentures.—Payable to bearer, with or without power for the bearer to have himself registered as holder.

Bill Broker.—One who buys and sells bills of exchange, thereby acting as middleman between the banks and the public.

Bill of Entry.—A form which must be completed for the Customs, giving particulars of goods shipped or imported.

Bill of Health.—A certificate, given by the Customs authorities to the captain of a departing vessel, testifying as to the state of health of the port.

Bill of Sale.—A document charging the goods and chattels of the signer with payment of his debt to the person taking the Bill. Such documents must be registered. Refers also to a contract for the sale of a British ship, or of a share therein.

Bill of Sight.—A purely provisional statement, which must be supplemented by a Bill of Entry (see above).

Blank Cheque.—A cheque issued already signed, but with the amount left blank.

Board of Referees.—A board of persons whose duty it is to adjudicate on disputes arising out of the Unemployment Insurance Acts.

Bond.—A sealed promise of any kind. More usually refers to such a promise to pay a specified sum if a certain condition is not fulfilled.

Bonded Warehouse.—A warehouse authorised by the Board of Customs for the storage of dutiable goods "under bond"—*i.e.*, without payment of duty. Goods so stored are known as "Bonded Goods."

Bottomry Bond.—A bond given by the captain of a ship mortgaging the vessel for repayment of a loan of money required to effect essential repairs to the vessel or to defray other expenses which are essential to bring the voyage to a successful conclusion. No repayment can be claimed under the Bond unless and until the boat reaches port safely.

Bounty.—A premium or bonus paid by the Government either to an industry to aid in its development, or to exporters to help them to compete with foreigners.

Bourse.—A continental Stock Exchange, or money market.

Broker.—A business intermediary who arranges deals between two persons for a commission, known as "brokerage."

Bucket Shop.—A term of opprobrium used to describe the less reputable type of outside broker.

Bull.—One who buys stock with the intention of selling out at a higher price before Settling Day.

Bullion.—A term signifying gold and silver in bars, blocks or dust, *i.e.*, *in mass*, as distinct from coins of the precious metals.

Buyer's Option.—See Options.

Call.—A notice issued by a company to its shareholders requiring payment of part or all of the amount remaining unpaid on their shares. See also under Option.

Call Money.—Money lent out by bankers, repayable on demand—*without notice.*

Call of More.—See Options.

Called Bonds.—Bonds called in for redemption on a certain date, after which interest will cease to accrue.

Cambist.—One who deals in foreign money, notes and bills, *e.g.*, a foreign exchange broker.

Capitalised Profits.—Profits which have been capitalised by the issue of bonus shares.

Carrying Over.—The postponement of settlement of a bargain on the Stock Exchange by payment of differences (see p. 889).

Case of Need.—A person named on a bill of exchange as being one to whom reference should be made in the case of dishonour.

Central Reserve System.—A system by which the cash reserves of the various banks in any country are centralised in the form of deposits with the Central Bank.

Certificate of Origin.—A declaration made by an exporter before the local Chamber of Commerce, certified by the latter and viséd by the consulate of the importing country, testifying as to the place of origin of the goods mentioned therein.

Certificate of Registry.—A document giving full particulars of a ship, stating that she is entitled to the privileges of a British-built ship and has been entered at the Custom House.

Certified Invoice.—See Consular Invoice.

Cesser Clause.—A clause commonly inserted in a charter-party to the effect that the charterer's liability for freight shall cease when the cargo is aboard.

Charges Forward.—The buyer to pay charges for carriage on delivery of the goods.

Charging Order.—An order of the Court charging shares in a company with payment of a judgment debt.

Charter.—Rights granted by the Crown. A contract for the hire of the whole or part of a ship.

Charterer.—One who hires a ship or part of a ship.

Cheap Money.—A term signifying that interest rates on short-period loans are low; *i.e.*, money can be borrowed cheaply.

Cheque Rate.—The price at which a cheque or sight draft drawn upon another country in the currency of that country may be purchased.

Chose in Action.—That which may be recovered by action at law.

Circular Cheque.—A special type of traveller's letter of credit issued by banks to customers who are about to travel abroad.

Circular Note.—A form of traveller's letter of credit, issued in round amounts by banks to their customers.

Clean Bill of Exchange.—A bill of exchange in which there is no reference to documents.

Clean Bill of Lading.—One in which there are no words drawing attention to defects in the goods.

Clean Credit.—A letter of credit promising acceptance of bills without requiring any documents to be attached.

Closing Prices.—The prices for securities ruling on the Stock Exchange at the close of business on any day.

Code.—A system of corresponding by the interchange of words, figures or phrases having another meaning. Adopted for purposes of secrecy and/or brevity, especially in telegraphic correspondence.

Collateral Security.—Additional security given by a borrower to his creditor as a backing to existing security.

Composition.—An agreement between a debtor and his creditor or creditors, whereby the latter accept payment of part of their debts in full discharge of the amounts owing.

Compound Options.—See Options.

Compte Rendu.—(French) Account rendered.

Condition.—A material term in an agreement, failure to observe which gives the other party the right to treat the contract as repudiated.

Confirmed Banker's Credit.—A credit issued by a bank containing an irrevocable *promise* to accept bills drawn thereunder.

Consideration.—See p. 241.

Consideration Money.—The amount stated in a transfer of securities to be the consideration payable to the ultimate vendor.

Consignment.—The importation or exportation of goods on speculation for sale. Sometimes the profits are shared by consignor and consignee.

Consols.—That portion of the National Debt which is secured on the Consolidated Fund of the United Kingdom.

Constructive Delivery.—Some act which shows a present intention to deliver.

Consul.—An official appointed by the Government to reside in a foreign town to safeguard the interests of its nationals in that place. The fee paid to a Consul for his services is known as "Consulage."

Consular Invoice.—An invoice prepared on a special form supplied by the Consul of the importing country in the country of origin, and certified by that Consul.

Contango.—A fee which must be paid by a "Bull" operator on the Stock Exchange to his broker in consideration of his being allowed to "carry over" his purchase, thereby postponing payment for the securities. It amounts virtually to interest on a loan of money.

Contango Day.—The first day of the periodical Stock Exchange Settlement on which transactions may be carried forward if necessary.

Continuation Clause.—A clause in a policy of Marine Insurance, whereby if the property insured is still at sea twelve months after issue of the policy, cover is automatically extended until arrival of the ship in port.

Contraband.—Goods whose import or export is either forbidden or allowed only on payment of a duty.

Contract Note.—A document setting forth the terms of a contract entered into by a broker or agent on behalf of his principal.

Conversion.—An operation whereby one type of security is converted into another, *e.g.*, stock into shares, or when one security is converted into another bearing a lower rate of interest. In legal language it means dealing with the property of another person without his authority.

Convertible Notes.—Bank or Government notes which may be converted into gold (or silver) at the option of the holder.

Copyright.—The rights of an author or composer to print and publish his works, and to restrain others from doing so without his permission.

Corner.—The operations of speculators who buy up the whole available supply of any commodity with the object of forcing up its price.

Council Bills or Drafts.—Bills of exchange on demand drawn by the Government on the Government Treasuries in Madras, Calcutta and Bombay, and advertised periodically for sale by tender.

Countervailing Duty.—A Customs duty which has been placed on imports in order to place them under the same burden as the home product, which has been subjected to a revenue-producing excise duty.

Coupon.—A warrant attached to bearer securities entitling the holder to payment of interest or dividend.

Crore.—Means 10,000,000 rupees.

Cum Dividend.—A phrase attached to the quotation of stocks and shares shortly before the declaration of dividend, signifying that the purchaser will be entitled to the dividend when paid.

Currency.—Legal medium or media of exchange of a country, including coins and notes which are recognised as legal tender.

Currency of a Bill.—The period of time between date of issue and maturity.

Custom House.—A place appointed by the authorities for the collection of Customs duties. Situated at sea and air ports, and elsewhere at suitable places on frontiers.

Day-to-Day Money.—Money lent by the banks to bill-brokers and others against security, the money being repaid and, if necessary, borrowed again each day.

Days of Grace.—Three days which are added to maturity on bills payable in this country other than bills payable on demand or bills definitely excluding days of grace.

Days' Sight.—Used on a bill to indicate that it is payable so many days after presentation to the drawee.

De Facto.—As a matter of fact.

De Jure.—As a matter of law.

Dead Freight.—An allowance due from the charterer of a boat to the owner thereof when the former has failed to provide a full cargo for the vessel. The payment is required to make good the loss which the owner would otherwise suffer.

Dead Loans.—Loans which are overdue and unpaid, or those which are made without definite arrangements as to repayment.

Dead Weight.—Massive goods which are used as bottom cargo in ships to ensure stability, and on which freight is paid by weight.

Dear Money.—Indicates that rates of interest for short-period loans are high.

Debasement.—A reduction in the metal content of coins resulting in a fall in their intrinsic value. This may result from either bad minting or from clipping (chipping off small pieces) or sweating (shaking coins in a bag) after issue.

Debenture.—A bond given by a company evidencing its indebtedness and usually charging its property for repayment. In Customs usage the term refers to the certificate given to an exporter of dutiable goods, entitling him to claim " drawback."

Declaration of Association.—The ultimate clause in a company's Memorandum of Association by which the signatories express their desire to be incorporated.

Deed of Arrangement.—An assignment made under seal by an insolvent person settling his property on his creditors. Such a deed requires registration at Somerset House, and requires Stamp Duty at the rate of 1*s*. per £100.

Deed of Assignment.—Another name for Deed of Arrangement.

Deed of Inspectorship.—An assignment of his business made by an insolvent to his creditors, empowering the latter to appoint a committee to manage the business.

Deferred Annuity.—An annuity that does not become payable until an agreed interval after the purchase has been arranged.

Deferred Stock. — Another name for Railway "A" Stock, which receives no interest until "B" Stock has received a fixed rate, after which "A" and "B" Stock rank together as ordinary stock.

Deficiency.—A Customs allowance in respect of loss on wines or spirits arising from evaporation or absorption.

Delivery Order.—An order signed by the owner of goods and directing the owner of the dock or warehouse in which they are stored to deliver them to a specified person.

Demurrage.—A charge made by the owner of a ship to compensate himself for delay due to the period taken for loading or unloading exceeding the agreed period (Lay Days). A similar charge is made by railway dock companies for delay in taking delivery of goods.

Depreciation.—The gradual diminution in the value of an asset, arising out of age or wear and tear. The term is also used to refer to a downward movement in the value of a security or a diminution in the value of a currency.

Dies Non.—A non-business day.

Differences.—Amounts payable or receivable by a speculator in respect of movements in the price of a security or commodity which he had contracted to buy or sell, but which he does not wish to take up or deliver.

Dividend.—A share in the profits of a company payable to the shareholders.

Dock Warrant.—A document issued by the proprietors of a dock acknowledging that they hold goods at the disposal of the depositor. The warrant is transferable by indorsement and delivery.

Documentary Bill.—A bill of exchange which is accompanied by documents of title to goods.

Documentary Credit.—A letter of credit which requires the attachment of documents of title to goods to any bills drawn thereunder.

Documents on Acceptance.—A term in a bill of exchange requiring the documents attached to be handed up to the drawee on acceptance of the bill.

Documents on Payment.—A term in a bill of exchange signifying that the documents attached are not to be handed up except on payment.

Domicile.—The permanent home or address of an individual or company.

Domiciled Bill.—A bill made payable elsewhere than at the domicile of the acceptor.

Dormant Partner.—Also known as a sleeping partner. One having a monetary interest in a firm but taking no part in the management.

Drawback.—A return of duty made by the authorities when excisable commodities are exported and when imported commodities (on which Customs duties have been paid) are re-exported.

Duty.—A tax levied by the Government on certain commodities.

Effects.—The money, goods and other movable possessions of an individual.

Effects not Cleared.—An answer written by a banker on a dishonoured cheque, indicating that the proceeds of remittances against which the cheque is drawn have not yet come to hand.

Embargo.—A Crown Order forbidding ships or goods to enter or leave a port. Such an order may be made on the outbreak of war, or to prevent the import of undesirable commodities.

Enfaced Paper.—Indian Government promissory notes, bearing on the face a notification that interest may be collected in London at the Bank of England, payable by draft on Calcutta.

Entrepôt.—A term signifying a port of transhipment. Used also to designate a warehouse where goods are deposited pending resumption of their journey. The entrepôt trade of a country is the trade in goods which are imported for the purpose of re-export.

Equitable Mortgage.—The mere deposit of title-deeds with or without a note of the transaction, as security for a temporary loan.

Escrow.—A deed delivered by the maker subject to fulfilment of a condition.

Ex.—" Out of." Thus " ex ship" means off the ship, " ex warehouse " means from the warehouse. A person who buys goods " ex factory " must take delivery thereof at the factory and pay all charges for their conveyance thence.

Ex All.—Used in the sale of securities to indicate that the buyer shall have no rights to any dividend, bonus, return of capital or new issue about to be made.

Ex Coupon.—The sale of a security where the buyer has no right to the forthcoming payment of interest or dividend.

Ex Dividend.—See Ex Coupon.

Ex Interest.—See Ex Coupon.

Ex New.—Applied to the sale of stock when the seller retains the right to take up new shares or stock which are about to be issued.

Ex Rights.—See Ex All.

Ex Ship.—Used in the sale of goods to indicate that the buyer must pay all charges from the ship's side.

Ex Warehouse.—The purchaser has to pay the cost of conveying goods from the place where they are warehoused.

Exchequer Bills.—Promissory notes issued by the National Exchequer under parliamentary authority and bearing interest at the market rate ruling on the date of issue.

Face Value.—The value of a security as indicated by the amount written thereon—its nominal value.

Factor.—A mercantile agent entrusted with actual possession of his principal's goods and having the right to sell them in his own name.

Federal Reserve System.—The system of banks in the United States, formed under the Federal Reserve Act, 1913, which established twelve Federal Reserve Banks under the control of a Federal Reserve Board.

Fiduciary Issue.—The issue of notes against a reserve consisting of securities. Under the Currency and Bank Notes Act, 1939, the Bank of England is empowered to make a Fiduciary Issue of £300,000,000 against securities (£5,500,000 of the backing of this issue may be silver coin).

Fiduciary Loan.—A loan made without security in reliance on the integrity of the borrower.

Fine Bank Bills.—See First-Class Paper.

Fine Bills.—See First-Class Paper.

Fine Paper.—See First-Class Paper.

Firm Offer.—An offer which is made consequent on negotiations, containing all the terms of a proposed contract, and which it is anticipated shall be accepted unconditionally so as to constitute a valid contract.

First-Class Paper.—Treasury Bills and Bills of Exchange bearing the name of at least one bank or financial house of undoubted reputation.

First of Exchange.—The first copy of a set of bills. The other copies are known as the second and third of exchange respectively.

Fixed Capital.—Capital sunk in the form of durable assets yielding a lasting, as distinct from immediate, return.

Fixed Charges.—The rent, rates and interest payable by a business concern whether it is doing business or no.

Floaters.—First-class bills and securities deposited as security for money at call.

Floating a Company.—See Flotation.

Floating Capital.—Capital which is not permanently sunk, but is invested in assets of a realisable nature, *e.g.*, Stock Exchange securities, goods and trade debtors.

Floating Charge.—A species of mortgage over the property of a company, which charges the property in favour of the creditor, but nevertheless allows the company to deal with its assets in the ordinary course of its business.

Floating Debt.—Money borrowed temporarily by a trading concern for purposes of its current business, and repayable within a short period. See also Unfunded Debt.

Floating Money.—Funds available for loaning out on the money market.

Floating Policy.—A policy under which is insured, up to a fixed limit, property varying in value and location.

Flotation.—The promotion and formation of a company.

Folio.—In book-keeping a folio is a page or sheet carrying both sides of an account (Debit and Credit). A ledger is not indexed by pages but by folios.

For Money.—Transactions on the Stock Exchange, settlement for which is to be made immediately.

For the Account.—Transactions on the Stock Exchange which are to be paid for at the next settlement.

Foreign Bill.—Any bill other than those which are both drawn and payable within the British Isles, or drawn within the British Isles on some person resident therein.

Foreign General Average.—A clause in Marine Insurance whereby the underwriter, in paying a general average loss, undertakes to be bound by adjustments made according to foreign law.

Forward Delivery.—A term in a contract for the sale of goods requiring delivery within a specified period.

Founders' Shares.—Shares allotted usually to persons taking part in the formation of a company and to vendors. They are usually a type of deferred share.

Free Alongside Ship.—The goods forming the object of a contract of sale will be delivered alongside a ship designated by the buyer, who must bear the cost of loading them.

Free of Particular Average.—A clause in Marine Insurance whereby the underwriters refuse liability for partial losses suffered by certain goods owing to accident.

Free Rent.—See Quit Rent.

Freight.—May mean either the cargo or the charge made for carrying the cargo.

Freight Note.—A statement sent by a shipbroker or shipowner to the shippers, setting out the freight due on goods shipped.

Freight Release.—An indorsement made by an officer of a ship on a bill of lading to indicate that freight has been paid and the goods may be delivered to the consignee.

Funded Debt.—The permanent portion of the National Debt, having no definite date of redemption and being redeemed as and when the revenue permits. For this purpose a sinking fund has been established. An operation whereby floating debt is converted into funded debt is termed "funding."

Funds.—A general term signifying the whole gamut of British Government securities.

Futures.—Produce which is to be shipped at some future date. The term is also applied to contracts entered into by manufacturers and others to protect themselves against future price movements.

Garbling.—The process of separating the damaged portions of goods from the sound parts.

Garnishee Order.—An order of the Court instructing a person who holds funds or goods of a judgment debtor to retain them for the benefit of the judgment creditor.

General Lien.—The right possessed, for instance, by a banker to retain the property of his debtor which is in his hands, pending settlement of the general balance of accounts between them.

Gilt-Edged Securities.—First-class securities, absolutely safe and assured, and easily realisable, *e.g.*, British Government stocks.

Give on.—To pay contango.

Glut.—An over-supply of any commodity. When more goods are put on the market than can be sold at a reasonable price there is said to be a glut.

Godown.—A native term by which Eastern merchants designate a warehouse at which imported goods may be stored until they are required for use.

Gold Bonds.—Bonds issued payable in gold coin. The term is frequently used with reference to American Railway Bonds.

Gold Premium.—The amount by which the gold value of a paper currency is exceeded by the nominal gold value, *i.e.*, when the currency is depreciated.

Goodwill.—The value of the business connections of a concern which may result from its possession of a patent, extensive advertising, the personal charm and capacity of its proprietors, or some other such cause.

Guarantee.—A promise made by one person, called the guarantor or surety, to another person, whereby the former promises to be responsible for the due performance by a third person (known as the principal debtor) of his obligations towards the creditor.

Guaranteed Stock.—Stock the dividend and/or capital of which is guaranteed by Government or by another concern.

Guinea-Pig Director.—A term of opprobrium used to designate a director of a company who has been appointed because of his name, but who is of no practical use to the company.

Hall-Mark.—An official mark impressed on plate and jewellery at the Goldsmiths' Hall or the Assay Office as an indication of its purity and the year of marking.

Hammered.—When a member of the Stock Exchange is expelled through failure to fulfil his obligations, he is said to be "hammered."

Hard.—A term used to signify a price which shows a tendency to rise.

Hardware.—A general trade term applied to all small articles manufactured from steel, iron, copper, brass, etc., as, for example, ironmongery and implements.

House Bills or Paper.—See Pig on Pork.

Hypothecation.—The pledging or mortgaging of property.

Impost.—Another word for "tax."

Imprest System.—A method of keeping petty cash, whereby the petty cashier is advanced a round sum and at definite intervals submits to the chief cashier a statement of his payments, for which the latter reimburses him, thereby bringing the petty cash funds up to the original round sum.

In Bond.—Refers to goods liable to duty which has not yet been paid, which are stored in a licensed warehouse pending payment of the duty.

In Transitu.—In course of transit. See also Stoppage in Transit.

Income Debenture.—A debenture that receives interest only if the company makes sufficient profits to cover the interest.

Incorporated.—Implies a body of persons banded together in such a way as to form a legal entity, having perpetual succession, *e.g.*, a limited company.

Indent.—An order for goods received from a foreign correspondent.

Indenture.—A deed executed by two or more parties. Formerly each party retained a copy, both copies having their edges similarly "indented" as a ready means of identification.

Indirect Exchange.—An exchange made between two countries through the intermediary of another or others.

Inflation.—An expansion in the available currency beyond the current needs of industry.

Ingot.—A bar of a precious metal.

Injunction.—An order of the Court forbidding the continued performance of a wrongful act or the commission of a threatened wrongful act.

Inland Bill.—One drawn and payable within the British Islands, or drawn within the British Islands upon some person resident therein.

Insolvent.—Having insufficient assets to discharge existing liabilities.

Insurance.—A contract by one person—the insurer—to indemnify another—the insured—in respect of losses incurred by the latter by reason of the happening of an event which is not bound to occur. The consideration for the contract is a money payment known as a premium.

Inter-Bourse Securities.—Securities, the issue of which was made in more than one country.

Interest Policy.—A Marine Insurance policy in which is set out the insurable interest.

Interim Dividend.—A dividend, by way of an instalment on the year's profits, declared by the directors of a company before the final accounts are to hand.

Intermediate Day.—The third day of the Stock Exchange settlement.

Inventory.—A list or catalogue of articles, such as a list of pieces of furniture or a descriptive statement of stock.

Investment.—The outlay of funds for the purchase of a profit-earning asset.

Issue Par.—The price at which securities were issued.

Jerquer.—An official of the Customs, who examines cargoes of incoming vessels to discover whether goods are being smuggled in without payment of duty.

Jetsam.—Goods cast overboard in time of peril and subsequently washed ashore.

Jettison.—To throw property (*e.g.*, cargo, ship's masts) overboard with the object of saving the ship and the rest of the cargo.

Jobber.—A member of the London Stock Exchange who acts on his own behalf in the purchase and sale of securities.

Joint-Stock Company.—Includes companies registered under the Companies Acts or incorporated under Act of Parliament or by Charter. It has been defined as "an association of individuals for purposes of profit, possessing a common capital, contributed by the members composing it, such capital being commonly divided into shares of which each possesses one or more, and which are transferable by the owner."

Journal.—The principal subsidiary book used in book-keeping. Formerly every entry had to go first through the Journal, but nowadays its place has largely been taken by various Day-books.

Judgment Debtor.—One who has been ordered by the Court to pay a debt.

Kite-Flying.—Dealing in accommodation bills with the object of raising money. The bills themselves are known as " Kites."

Lac or Lakh.—100,000 rupees, written Rs.1,00,000.

Lagan.—Jettisoned goods which have sunk but are marked with a buoy to facilitate recovery.

Landing Order.—The authority to land goods, granted by the Customs.

Lay Days.—A specified number of days allowed to a shipper for loading or unloading his goods.

Lease.—An agreement whereby a piece of land or a building is let or surrendered by the owner (the lessor) into the care of the lessee for an agreed period in consideration of the payment either of a lump sum or of periodical amounts.

Ledger.—A book used in book-keeping, wherein are recorded entries to the debit and credit of all accounts. The ledger is usually subdivided into parts, each of which is used for recording only special types of accounts.

Legal Mortgage.—One where the borrower executes a deed conveying to the lender the legal ownership of property as security for a loan. Equity of redemption is the right of the mortgagor to have the property reconveyed to him on payment of the principal and interest due.

Legal Tender.—Such forms of money as a creditor is legally bound to accept in payment of his debt.

Lessee.—See Lease.

Lessor.—See Lease.

Letter of Allotment.—The written acceptance by a company of an offer to subscribe for shares.

Letter of Attorney.—See Power of Attorney.

Letter of Hypothecation.—A document conveying to a banker full right and title to any goods in respect of which he may have given advances. It gives him authority to store and insure the goods and to pay freight thereon to the debit of the customer, and in case of default, to sell all or any part of the goods, with recourse to the parties to the letter of hypothecation for any balance.

Letter of Indemnity.—A document signed by one person agreeing to recoup another person for any loss he may suffer owing to the happening of a certain event.

Letter of Licence.—A document signed by the creditors of an insolvent person, agreeing to allow him a certain period for carrying on his business without making them any payment.

Letter of Marque.—A licence granted to merchants by the Government in time of war, empowering them to attack the enemy.

Letter of Renunciation.—A form by which a person entitled to take up new shares may transfer his right to another person.

Letters Patent.—A document issued by the Government, under the authority of the Crown, conferring on the addressee a patent or other privilege.

Liability.—That which a person or body is bound to perform: an obligation.

Lien.—The right of one person to retain the property of another, pending fulfilment by the latter of his obligations towards the former.

Lighterage.—The charge made for conveying goods between wharf and ship.

Liquid Assets.—Assets which are readily convertible into cash.

Liquidated Damages.—A fixed sum agreed upon in a contract as being the amount payable in respect of breach of the contract.

Liquidation.—The winding-up of a business concern.

Lloyd's.—An association of underwriters and others concerned in shipping and Marine Insurance business.

Lloyd's Bonds.—Promissory notes to bearer, carrying interest, issued chiefly by railway companies for the purpose of raising funds in excess of their borrowing powers.

Lloyd's Policy.—A standard form of policy settled by the Committee at Lloyd's.

Lloyd's Register.—A list of British ships and of all foreign ships built under the inspection of Lloyd's, giving details of tonnage, etc. First-class ships are known as " A1 at Lloyd's."

Loan Rate.—The rate of interest paid in the money market for secured loans.

London Acceptance Credit.—A letter of credit issued by a London bank or acceptance-house, authorising the drawing of bills on the issuer.

Long.—An American term, used to imply the same as our " Bull " term. When a person goes " long " of anything he has purchased more than he has sold.

Long Bills.—Bills of Exchange drawn payable at a period exceeding three days after date or sight.

Made Bill.—One having a third party's name on it as indorser.

Making-Up Day.—The first of the Settlement days on the Stock Exchange. Also known as Contango Day.

Making-Up Price.—A price for securities which are to be carried over, fixed by the Stock Exchange. Differences based on this price must be paid to or received from the broker.

Man of Straw.—A man having little or no property and, therefore, not worthy of credit.

Mandamus.—A writ issued by the Court of King's Bench.

Manifest.—A document which must be signed by the master of a vessel before sailing. The document contains full particulars concerning the ship, crew and cargo, and must be lodged with the Customs authorities before the vessel leaves a port.

Margin.—A banking term signifying the amount by which the security for a loan exceeds the amount of the advance.

Marginal Letter.—A form of letter of credit having a blank bill form in the margin which may be filled up under the authority of the beneficiary.

Maritime Lien.—The right to enforce the application of certain property to satisfy a debt arising out of a maritime adventure. This lien does not depend on possession of the goods.

Marked Cheque.—A cheque marked by the drawee banker to indicate that it is good for payment. Sometimes known as a " certificated cheque."

Material Man.—The converse of a " man of straw."

Mate's Receipt.—An acknowledgment of the receipt of goods on board ship, signed by the mate or a responsible officer.

Maturity.—The due date of bills, etc.

Memorandum of Association.—A document which must be filed before a company can become incorporated. It sets forth the name, objects and capital of the company and defines its constitution.

Metric System.—A system of weights and measures in force in certain countries. The system is based on the metre, and each of the units has multiples and sub-multiples which are decimal multiples and fractions of the basic unit. The units are: the *metre* for distance, the *are* for area, the *litre* for volume, and the *gramme* for weight. Fractions are designated by Latin prefixes: thus $\frac{1}{10}$th is *deci*, $\frac{1}{100}$th is *centi* and $\frac{1}{1000}$th *milli*; whilst the multiples are *deca*, *hecta*, *kilo* and *myria*. The system is useful because of the facility of calculation.

Middle Price.—The price half-way between the dealer's buying and selling prices.

Mint.—The Government institution where British coins of the realm are struck.

Mint Par of Exchange.—The equivalent of the standard coin of one country expressed in terms of that of another country having the same metal as its standard; based upon the respective weights of pure metal contained in the two coins.

Minute Book.—A book wherein are recorded the proceedings of a succession of meetings. The recorded notes are known as "Minutes."

Misfeasance.—A wrong-doing. Failure to perform a duty in the correct manner.

Mixed Currency.—A system of currency incorporating both paper money and coins.

Mixed Policy.—A Marine Insurance policy covering both a period of time and a specified voyage.

Money Market.—A collective term signifying the market formed by banks, discount-houses and other dealers in bills and money.

Monometallism.—A currency system which is based solely on one metal (*e.g.*, gold) as the standard.

Monopoly.—An exclusive right possessed by a person or body of persons to carry on some branch of trade or manufacture. Such a monopoly may be natural—due to laws of nature—or artificial, as by royal prerogative.

Moratorium.—An extension of time for the payment of debts, sanctioned by the Government in extraordinary circumstances.

Mortgage.—A conditional transfer of the ownership of land or other property by the owner (the mortgagor) to a person advancing him money (the mortgagee), with the provision that on repayment of the advance the mortgagor may regain his property.

Mortgage Debentures.—Those which are secured on the company's property, giving a charge either upon the whole or a portion of the assets.

Naked Debentures.—Those where no security is given for payment of interest or repayment of principal.

Name Day.—The second of the Stock Exchange settling days, when the names of purchasers and sellers must be handed in.

Named Policy.—A Marine Insurance policy in which the name of the vessel is inserted at the time the insurance is effected.

National Debt.—The whole of the debt owing by the nation, *i.e.*, which has been borrowed by the Government for national use.

National Savings Certificates.—Certificates issued by the Treasury to persons certifying that they have loaned to the State a specified sum of money on stated conditions.

Naturalisation.—The granting to an alien of the rights and privileges enjoyed by an English subject.

Negotiability.—The quality of certain instruments which permits the title in them to be transferred from one person to another merely by passing them from hand to hand without notice to the party liable.

Notary Public.—An official having authority to certify deeds, etc., and to note the dishonour of bills of exchange.

Novation.—Means the substitution, by agreement between all the persons affected, of new parties for existing parties to a contract. In the case of bank amalgamations, debtors and those who have pledged security to the absorbed bank, are called upon to sign a form acknowledging the transfer of their liability to the new concern. This form is legally necessary to preserve liability.

Nursing an Account.—A banking term signifying the action of a banker who grants special accommodation to a customer in order to retain his account.

Official Assignee.—The equivalent in the Irish Free State of the Official Receiver in English law (see Chapter 49).

Official List.—A list published under the authority of the Committee of the London Stock Exchange, showing current prices of certain securities dealt in on the Exchange.

Omnium.—The aggregate value of different stocks forming part of one loan.

One-Man Company.—A company which, to all intents and purposes, is owned and controlled by one man.

Open Account.—An account which has an unsettled or outstanding balance.

Open Credit.—A letter of credit issued by a banker placing cash or acceptance facilities at the disposal of the beneficiary without requiring security in the form of documents of title.

Open Policy.—A Marine Insurance policy in which the value of the goods is not fixed, but their identity and value is declared subsequently.

Option.—A right purchased by a speculator on the Stock Exchange. The following are the chief forms :—

To "Call," *i.e.*, to buy at a specified price on a fixed future date.

To "Put," *i.e.*, to sell at a specified price on a fixed future date.

To "Put and Call," *i.e.*, to buy *or* sell at a specified price. This is a *double* option.

Original Bills.—Bills negotiated before any indorsement has been added. The term applies only on the first negotiation.

Output.—The amount produced by a concern. Expressed in terms of money, it is the "turnover."

Over-Capitalised.—A company is said to be over-capitalised when its capital is so heavy in proportion to its turnover and profit that it is unable to pay adequate dividends.

Over-Trading.—Doing more business than the available capital warrants.

Overhead Costs.—Those items of a business man's expenses which are permanent and do not fluctuate according to the volume of his business, *e.g.*, rent, rates, interest on debentures.

Paid-Up Capital.—The amount of capital which has actually been paid in by the shareholders in money or money's worth.

Paper Money.—Includes bank notes and Government notes.

Par.—A state of equality. When a £1 share is quoted at £1 it is said to be at par.

Pari Passu.—In equal proportions. Thus, if two classes of shares are said to rank *pari passu* in any respect, they are on an equal footing in that respect.

Parity.—The sterling equivalent of the price quoted in New York or other foreign centre for an international security—after allowing for the rate of exchange and differences in methods of quoting.

The term is also used to describe the position of an exchange when the rates in the two centres are identical.

Parquet.—The group of official brokers on the Paris Bourse. Refers also to the enclosed space where they meet.

Partial Loss.—A Marine Insurance term signifying loss of only part of the insured property.

Particular Lien.—The right of the person in possession of the goods of another to retain those goods pending payment by the latter for services rendered by the former in connection with the goods.

Partnership.—An association of persons carrying on business in common with a view to profit.

Passport.—A credential granted by the Government to an individual authorising his free ingress to and egress from the country.

Pawnbroker.—A person licensed to advance cash on the security of articles left in pledge. His interest charges are regulated by law.

Pay Day.—The last of the four periodical Stock Exchange settling days.

Penalty.—A sum fixed in a contract as payable by either party who shall be guilty of a breach. The sum is fixed to include just damages *plus* a fine.

Per Contra.—As on the other side—used especially in balance sheets to indicate a balancing entry.

Per Diem.—Per day.

Per Procurationem.—Under the authority of.

Perils of the Sea.—Accidents arising in the natural course of seafaring.

Permanent Building Society.—A permanent Building Society is one which has no fixed term of life, as distinct from a temporary Building Society, which exists to satisfy a certain number of members who obtain houses by ballot, to be paid for out of their joint contributions. The temporary building society comes to an end directly all its members have been satisfied.

Petite Bourse.—The market held in the evenings on the Paris Bourse.

Petty Cash.—Money available for small disbursements.

Pig on Pork.—Bills drawn by one branch of a firm on another branch or head office.

Pilferage.—Theft of goods whilst in transit.

Plural Voting Shares.—Shares which carry more than one vote each.

Pool.—A loose form of combination between hitherto competing firms who agree to share total profits on some arranged basis.

Possessory Lien.—See Particular Lien and General Lien for the two types.

Post Obit Bond.—A document signed by one person binding himself to repay, on the death of another person, a loan with interest thereon.

Poste Restante.—The system by which a person arranges with a post office to retain letters addressed to him until he calls for them.

Poundage.—A charge per £1, as, for example, on postal orders.

Power of Attorney.—A document signed by one person authorising another to act on his behalf for the purposes specified therein.

Preferential Debts.—Debts of an insolvent person or company which must, by law, be satisfied, before anything is distributed to ordinary creditors, *e.g.*, debts for wages, rent and rates.

Preferred Stock.—A railway company's " B " stock. See also Deferred Stock.

Primage.—A charge made for the use of ropes, cables, etc., in loading or unloading cargo.

Prime Cost.—The cost of material, wages, fuel, etc., expended directly in the production of an article, without taking account of overhead costs.

Prime Entry.—The provisional entry made for Customs purposes before goods are landed.

Prior Lien Debentures.—Debentures which take precedence of all other previous issues.

Privity of Contract.—The relationship created between two or more persons by their entering into a contract.

Probate.—An official copy of the will of a deceased person, issued by the Registry of the High Court after the original will has been proved.

Pro rata.—In proportion.

Profit-Sharing.—An arrangement between employer and employed, whereby the latter receives, in addition to his fixed wages, a share in the realised profits of the business.

Prohibited Goods.—Goods whose export or import is illegal.

Proof in Bankruptcy.—The claim against a bankrupt's estate made by a creditor and supported by his affidavit.

Proprietary Company.—One which owns a patent or copyright and grants licences to subsidiary companies. In Colonial law it has a special meaning.

Protection.—A system of Customs duties imposed on imports with the

avowed object of encouraging home industry against foreign competition.

Protest.—A document signed by a notary public attesting the dishonour of a bill or promissory note.

Proxy.—The authorisation given by one person to another to act on his behalf. The person authorised is known as a "proxy."

Public Auditor.—An auditor appointed by the Treasury to act as auditor of the accounts of Friendly Societies and of Industrial and Provident Societies.

Quantum Meruit.—"As much as he deserves." The grounds on which a party to a contract may sue the other party who has been guilty of breach, when the former has already performed part of his agreement.

Quarantine.—A period prescribed during which there must be no intercourse between the shore and a ship which is suspected of infection. The ship is said to be in quarantine.

Quarter Days.—The last days of each of the quarters of the year on which payment of rent or interest falls due. They are :—

In England.		In Scotland.	
Lady Day	25th March.	Candlemas Day	2nd Feb.
Midsummer Day	24th June.	Whitsunday	15th May.
Michaelmas Day	29th Sept.	Lammas Day	1st August.
Christmas Day	25th Dec.	Martinmas Day	11th Nov.

Quid Pro Quo.—Something in return.

Quit Rent.—The rent paid by a tenant in commutation of manorial incidents.

Quittance.—A release.

Quorum.—The minimum number of members who must, according to the rules of the particular body, be present at a meeting in order to conduct the business in regular form.

Quotation.—An offer to supply goods at a price stated, such as is forwarded in response to an enquiry. A "Market Quotation" is a record of price and terms on which transactions have been effected on a market.

Rack Rent.—The full rent at which a property is worth to be let in the open market—the landlord paying for usual repairs and the tenant bearing the rates.

Racking.—A Customs House term meaning the drawing off or mixing of wines or spirits held in bond.

Rate of Exchange.—The current value of the currency of one country expressed in terms of the currency of another.

Rebate.—An allowance off the price of anything. The discount allowed by the holder of a bill to an acceptor, who pays or "retires" it before it is due.

Rebate on Bills Discounted.—An item which appears on the liabilities side of the balance sheet of a bank or discount house and represents the unearned portion of the discount charged on bills in its portfolio.

Receiver.—A person appointed by another or by the Court to take charge of property to which the first person has certain rights, *e.g.*, a receive appointed by a mortgagee on default of the mortgagor.

Receiving Note.—A document addressed by a shipper to the chief officer of a ship, requesting the latter to take on board certain specified goods.

Receiving Order.—An Order of Court, giving the property of an insolvent debtor into the charge of a receiver. The effect of the order is not to divest the debtor of his property, but to place it in the care of another on his behalf.

Reciprocity.—An arrangement between two countries under which each agrees to admit goods from the other under specially advantageous terms as regards Customs duties.

Reconciliation Statement.—A statement drawn up showing the agreement between Pass-Book and Cash-Book after allowing for cheques not yet presented and effects not yet cleared.

Reconstruction.—The reorganisation of a company, usually involving the writing down of its capital.

Re-draft.—A new bill drawn on a party liable on a dishonoured bill. The new one is drawn for the face amount of the old, plus interest and costs.

Re-exchange.—The loss resulting from the dishonour of a bill in a country other than that in which the holder resides.

Registered Bonds or Shares.—Securities the ownership of which is evidenced by entries in the books of the issuing body.

Release.—The discharge granted by one person to another who is liable to him.

Remedy Allowance.—The margin permitted by law in the weight and fineness of coins issued by the Mint.

Rentes.—A continental term signifying securities of the National Debt.

Report.—A statement made by refiners setting forth the degree of purity of a bar of gold or silver which they have assayed.

Reserve.—The cash and balance held at the Bank of England by another bank. The term also implies an accumulation of undivided profits. When these latter are invested in securities the accumulation is known as a "Reserve Fund."

Reserve Liability.—That part of a company's uncalled capital which cannot be called up except in the event of a winding-up.

Resolution.—A declaration of the wishes of a body of persons assembled at a meeting, their desires having been ascertained by putting a proposal before them and taking the votes for and against.

Rest.—The undivided profits of the Bank of England.

Retire a Bill.—To pay a bill of exchange before maturity.

Return of Premium.—The portion of an insurance premium returned by underwriters to a person who has insured something above its true value.

Reversion.—A right to property which accrues to a person on the occurrence of a specified event, *e.g.*, the freeholder's right to property leased at the expiration of the lease.

Rider.—A subsequent addition, *e.g.*, to a resolution after it has been passed.

Rig.—To "rig a market" is to force up the price of a security above its true value, as by spreading false rumours and instituting a buying campaign.

Ring.—A combination of persons having as their object the forcing up of the price of a commodity by withholding supplies from the market. When complete control of the entire supply is obtained, a "Corner" is said to exist.

Royalty.—A payment made to the owner of a copyright or the holder of patent for the right to use his copyright or patent respectively. Refers also to a payment made to a coal owner in respect of each ton of coal raised from his land.

Rummaging.—The search of an incoming vessel conducted by Customs officials to ensure that no dutiable or prohibited goods are concealed on board.

Running Days.—Days allowed to the charterer of a vessel for loading his goods. Non-business days are not counted.

Running-Down Clause.—A clause in a Marine Insurance policy whereby the underwriters agree to bear three-fourths of any sum the owner of the ship may have to pay to another shipowner for damage caused by collision.

Running Hours.—Similar to running days (which see).

Running Policy.—An open Marine Insurance policy covering the risk on goods on board during a specified period or up to a certain date.

Rupee Paper.—See Enfaced Paper.

Salvage.—Property saved from the sea or a fire. Refers also to the reward paid to a person who saves goods at sea when under no contract to do so.

Salvage Loss.—The amount paid by marine underwriters for the loss of insured property after deducting the value of goods salvaged and adding charges.

Sampling Order.—A form of authority to a wharfinger, requesting him to allow samples to be taken of goods in his care.

Sans Frais.—" Without expense." Words inserted in an indorsement to a bill of exchange by a party who refuses to accept liability for expenses incurred on dishonour.

Scrip.—" Subscription." The certificate or receipt acknowledging payment of application and allotment moneys for shares, etc.

Seconda Via.—A copy of a document which is sent by a later mail in case the first should go astray.

Seigniorage.—The profit made by the Government on the issue of token money, arising from the difference between the face value of coins and their value as metal.

Sequestration.—A Scotch term signifying bankruptcy.

Set-Off.—A counter-claim. Where two persons are mutually indebted to one another their debts are " set-off," and payment is made only for the balance.

Settlement.—The fortnightly settling period on the Stock Exchange, when securities are delivered and payment is made.

Shipping Advice.—An advice sent to the docks by a railway company giving notice that certain goods have been forwarded for shipment.

Shipping Bill.—A Customs document filled up by a person desiring to claim drawback.

Shipping Note.—A memorandum addressed to a dock superintendent requesting him to receive and ship the goods specified.

Ship's Husband.—The manager of a British ship.

Ship's Papers.—The papers which must be carried on board ship to establish its identity, ownership, nationality and cargo.

Ship's Passport.—A document issued to the captain of a neutral ship in time of war, permitting the ship to proceed on its voyage.

Ship's Protest.—A declaration made and signed under oath by the captain of a vessel, setting forth the authentic circumstances leading to damage suffered by the vessel or cargo. Such a declaration is required by an insurance company before it will pay out under a claim.

Ship's Report.—A document which must be furnished to the Customs by the master of a ship within twenty-four hours of her arrival in port, detailing particulars of ship, cargo and crew.

Ship's Specification.—The form supplied to the Customs by the master of an outgoing ship specifying all goods exported.

Short.—The American term signifying the position of a person who sold in anticipation of a fall in prices. Similar to our term " Bearish."

Short Bills.—Bills of exchange having only a few days to run before maturity.

Short Interest.—The amount by which goods have been over-insured, for which part of the premium is repaid.

Short Shipment.—Goods lacking from a consignment, having been left behind for any reason.

Shut Out.—Refers to goods which a steamer has been unable to take on board.

Signatories.—Those who sign as subscribers to the Memorandum of Association of a joint-stock company.

Sine Die.—" Without a day," indefinitely. When a meeting is adjourned *sine die*, it means that it is postponed indefinitely.

Sleeping Partner.—One who invests capital in a partnership, but takes no active part in its management. Sometimes known as a "dormant" partner.

Sliding Scale.—An arrangement whereby the workman's wages vary in proportion to the selling price of the product. The same term is used to describe a wage-system under which payments are regulated in accordance with the Cost of Living Index number.

Slinging.—A charge made for putting chains round goods to facilitate their hoisting into the hold of a vessel lying in port.

Slip.—A memorandum setting forth the terms of an insurance contract and issued by an underwriter pending completion of the stamped policy. The slip is of no legal effect, but is morally binding.

Slump.—A heavy drop in prices.

Sola Bill.—A bill of exchange drawn in one part only, as distinct from bills drawn in a set.

Solvent.—A person or concern who is in a position to meet his liabilities in full is said to be " solvent."

Special Damage.—Damages resulting to a person which were not normally expected to be suffered as a natural result of the particular circumstances.

Specie.—Metallic money as distinct from paper money.

Specie Points.—The two exchange rates, above and below Mint Par, at which it is just as advantageous to import or export bullion as to draw or buy bills.

Specification.—A detailed statement of goods to be supplied or work to be performed.

Stag.—A speculative person who applies for shares in a new issue which he expects will be over-subscribed, with the hope of selling out at a premium to an unsuccessful applicant.

Stale Cheque.—A cheque which is still in circulation more than, say, six months after its issue.

Standard Gold.—Gold of the same fineness as the standard coin—in England $\frac{11}{12}$ths fine.

Standard Silver.—English standard silver is 50 per cent. fine.

Statutory Declaration.—A statement made by a person in the presence of a commissioner for oaths, in accordance with the Statutory Declarations Act, 1835, testifying to the accuracy of certain facts.

Sterling.—Used to distinguish the English pound from that of other countries.

Sterling Bonds.—Bonds payable in England in sterling. Refers particularly to certain American Railroad Bonds.

Stevedore.—One who assists in the loading or unloading of a vessel.

Stock Receipt.—A receipt given by the issuing body in connection with inscribed stock and stating that the person named is owner of certain stock.

Stop.—A notice given to a banker requesting him not to pay a certain bill or note on presentment.

Stoppage in Transitu.—The right of an unpaid seller of goods, who has heard of the buyer's insolvency, to stop the goods before they have reached the end of their journey.

Stowage.—The packing of cargo on board ship.

Stranding.—The marine term implying that a ship has touched the bottom and been held there for an appreciable time.

Subpœna.—A writ commanding the attendance of an individual in court under a penalty if he fails to attend.

Sue and Labour Clause.—A Marine Insurance clause by which the underwriters promise to indemnify the insured and his agents for expenses incurred by them in defending and/or recovering the property insured.

Suez Canal Clause.—A clause in a Marine Insurance policy providing that grounding in the Suez Canal shall not constitute stranding.

Supra Protest.—Under Protest.

Surety.—See Guarantee.

Surrender Value.—The amount which an insurance company will pay to the holder of a policy who desires to cease paying the premiums and to cancel the policy.

Take Up.—To meet or pay a bill at its due date.

Tale Quale.—A term used in contracts for the sale of goods "to arrive." It indicates that the goods, when shipped, were equal to sample, but that the buyer must take the risk of any depreciation subsequent to shipment.

Talon.—A slip attached to a bearer bond which is given up by the holder in exchange for a fresh sheet of coupons when the first issue has expired.

Tape Prices.—Quotations on the Stock Exchange and other markets as recorded by the tape machine.

Tariff.—A list of articles liable to Customs duty, setting forth the duties payable on each.

Tel Quel.—A rate of exchange calculated for the negotiation of foreign bills of exchange having an odd period to run, and not, therefore, covered by the current rates. See also Tale Quale.

Telegraphic Transfer.—Cable Transfer, T.T. An order requesting the transfer of a specified sum to a named person. Such orders are given by a bank on behalf of its customers to its agents abroad.

Tender.—A definite offer to perform a contract at a specified price. Refers also to the attempted performance of a contract.

Terminable Annuity.—An annuity to be paid for a fixed period only. Sold by the Government and by insurance companies.

Ticket Day.—See Name Day.

Time Bargain.—A contract entered into for performance at a future date, but the terms and conditions of which are fixed immediately. On the Stock Exchange the term signifies a speculation spread over a period longer than the usual fortnightly settlement.

Time Policy.—A Marine Insurance policy covering property for a fixed period and not merely during a specified voyage.

Token Coins.—Coins whose value is fixed by law at a figure higher than their intrinsic worth.

Tonnage.—The cubical capacity of a vessel or of any of its compartments. "Net tonnage" is the capacity available for cargo and passengers. In calculating tonnage, 100 cubic feet are taken as equal to 1 ton.

Towage.—The fee charged by the owner of a tow-boat or tug for hauling a vessel.

Trade-Mark.—A registered name, mark or brand marked on goods to indicate their source, adopted by manufacturers to distinguish their products from those of competitors.

Treasury Bonds.—A medium term Government security issued as bearer or registered bonds of £50 to £5000 each.

Truck.—The payment of wages in kind—*i.e.*, in goods or services.

Truck Acts.—Acts designed mainly to render illegal the payment of wages in kind, and to regulate the levying of fines on workpeople.

Trust Receipt.—A document admitting the bank's sole property in goods and undertaking to pay the full proceeds thereof to the bank immediately on receipt.

Trustee.—One who holds property in trust for the benefit of another—

Turnover.—The aggregate value of the business transacted by a concern over a given period.

Ullage.—The quantity which the contents of a cask or bottle lack to make it full. Refers also to waste occurring through leakage of a liquid.

Ultra Vires.—Beyond the powers of—in excess of authority.

Underwriting.—A form of insurance by which the success of an issue of shares or debentures may be insured. Similarly, an insurance policy may be guaranteed by "underwriters" who sign their name as insurers.

Undischarged Bankrupt.—A person who, having been adjudicated bankrupt, has not yet obtained his discharge.

Unified Stock.—Stock created by the amalgamation of several old issues at a single rate of interest.

Unvalued Policy.—A policy in which the value of the property insured is assessed after loss has occurred.

Usance.—The period of currency for which bills are customarily drawn between any two countries.

Valued Policy.—A policy in which the value of the property insured is agreed upon when the contract of insurance is made.

Vendor's Shares.—Shares in a company which are issued in full or part payment for property sold to the company.

Voyage Policy.—A Marine Insurance policy which extends cover for the duration of a specified voyage, no matter how long it lasts.

Wager Policy.—One in which the insured has no insurable interest in the property insured.

Waiver.—The act of a person having rights under a contract, who gives up certain of those rights.

Waiver Clause.—A Marine Insurance clause in which the underwriters may do anything to protect property which is in peril without prejudice to their right to refuse abandonment.

Warranty.—A term in a contract. Breach of a warranty ordinarily gives a right only to damages for breach; but in Marine Insurance such breach is treated as total breach of contract.

Watering Stock.—The issue by a company of fresh capital beyond the limits justified by its position; or the increase of the nominal value of its shares without the receipt of cash therefor, but on the basis of fictitious profits.

Window-Dressing.—The action of the joint-stock banks at half-year of calling in their loans, with the object of swelling their cash figures so as to show a favourable balance sheet.

Without Prejudice.—A phrase employed by a party in a dispute when making an offer which he intends shall bind him only in the case of a satisfactory settlement.

Working Capital.—The assets of a concern available for carrying on current business.

Writing Off or Down.—The process of reducing the value at which an asset stands in the accounts.

Writing Up.—An operation in accounting, whereby the book-value of an asset is increased to reflect an increase in its real value.

York-Antwerp Rules.—A set of rules drawn up by a conference of underwriters at Antwerp regulating the adjustment of Marine Insurance losses.

Zollverein.—The Customs union of the states comprising Germany, by which Customs duties between the states were abolished.

APPENDIX II

COMMERCIAL ABBREVIATIONS

A. or a.	Anna (Indian coin).
A.a.r. A.R. or A.r.	Against all risks.
A1	First class.
Abbr.	Abbreviation.
Abt.	About.
Ac.	Acre.
A/C	Account current.
A/c or acct.	Account.
Acc.	Acceptance ; accepted.
Ackgt.	Acknowledgment.
A.D.	*Anno Domini* (In the year of our Lord).
A.d. or A/d	After date.
Ad lib.	*Ad libitum* (at pleasure).
Ads. or adverts.	Advertisements.
Adv.	Advice.
Ad val.	Ad valorem (according to value).
Aft.	After, afternoon.
A.G.	"Aktiengesellschaft"—German public reg. company.
A.g.b.	A good brand ; *or* any good brand.
Agt.	Agent ; against.
a.m.	*Ante meridiem* (before noon) ; morning.
Amt.	Amount.
Anon.	Anonymous.
Ans.	Answer.
A/o.	Account of.
A/or	And/or.
A.P	*à protester* (to be protested—bills) ; additional premium (insurance).
App.	Appendix.
Appro.	Approval ; approbation.
Approx.	Approximate.
A/R	All risks (marine insurance).
Arr.	Arrive ; arrival.
Art.	Article.
A/S.	Account sales.
A/s.	At sight ; after sight.
Assn.	Association.
Asst.	Assistant.
Av.	Average.
Av. or avoir.	Avoirdupois.
Ave.	Avenue.
Avg.	Averaging.
A/v.	*Ad valorem* (in proportion to value).
B/–	Bag ; bale.
B.A.	Buenos Ayres.
Back.	Backwardation (Stock Exchange).
Bal.	Balance.
Bar.	Barrel.
B.B.	Bill Book.
B.C.	Bills for collection ; British Columbia (Canada).
B.Ch.	Bristol Channel.
B/D.	Bank draft ; Bills discounted.
B/d.	Brought down.
Bd.	Bond.
B/Dft.	Bank draft.
Bdle.	Bundle.
B/E.	Bill of Exchange.
B. of E.	Bank of England.
B/f.	Brought forward ; bold face (printing).
Bg.	Bag.
Bk.	Bank ; book ; backwardation.
Bkg.	Banking ; book-keeping.
Bkpt.	Bankrupt.
Bkt.	Basket.
Bl.	Bale ; barrel.
B/L.	Bill of Lading.
Bldgs.	Buildings.
Blk.	Black.
B.M.	British Monomark.
B.N.	Bank note.
B/o.	Brought over.
B.o.	Branch office ; buyer's option.
B.O.D.	Buyer's option to double.

Bot. . . Bought; bottle.
B/P. . . Bill Payable.
Bque . . Barque.
Br. . . British; brother.
B/R. . . Bill Receivable.
Brev. . . *Breveté* (patented)
Brit. . . British.
Brl. . . Barrel.
Bro. . . Brother.
Bros. . . Brothers
Brot. or Brt. Brought.
B.S. . . Balance Sheet.
B/S. . . Bill of Sale.
B/s. . . Bags; bales.
Bsh. or Bus. Bushel.
B.t. . . Berth terms.
Bt. . . Bought.
B.T.U. . Board of Trade Unit (kilowatt-hour).
Bx. . . Box.
Bxs. . . Boxes.

C. . . . 100.
C/–. . . Case; currency; coupon.
c. . . . Cent; cents; centime; centavo; copeck; hundred-weight.
C.A. . . Chartered Accountant.
C/A. . . Capital account; commercial agent.
Ca. . . Cases.
Cap. . . Capital; *capitulum* (chapter).
Caps. . . Capitals (printing).
Capt. . . Captain.
Cash. . . Cashier.
Cat. . . Catalogue.
C.B. . . Cash Book.
C.C. . . Continuation clause.
c.c. . . Cubic centimetres.
C.D. . . Commercial Dock.
C. and D. . Collection and delivery.
C. and F. . Cost and freight.
C/d. . . Carried down.
C.d. . . *Cum dividendo* (with dividend).
Cd. fwd. . Carried forward.
C.E. . . Civil Engineer.
Cent. . . *Centum* (100); centime; Centigrade.
Cert. . . Certificate.
Cert. Inv. . Certified Invoice.
C/f. . . Carried forward.
c.f. . . . Cubic feet.
Cf. . . . *Conferatur* (compare).
C.f.i. . . Cost, freight and insurance.
C.f.o. . . Coast for orders (chartering).
cg. . . . Centigramme.
Cge. . . Carriage.
C.H. . . Custom House; Clearing House.
Ch. . . Chapter.
Ch. fwd. . Charges forward.
Ch. ppd. . Charges prepaid.
Chap. . . Chapter.
Chq. . . Cheque.
C.I. . . Channel Isles.
Cia . . *Compania* (Spanish—company).
Cie . . *Compagnie* (French—company).
C.i.f. . . Cost, insurance and freight.
C.i.f. & c. . Cost, insurance, freight and commission.
C.i.f. & c. & e. Cost, insurance, freight and commission and exchange.
C.i.f. & i. . Cost, insurance, freight and interest.
C.i.f.c. & i. Cost, insurance, freight, commission, and interest.
Circ. . . *circa, circum*—about.
Ck. . . Cask.
cl. . . . Centilitre.
Cld. . . Cleared (goods, shipping.)
cm. . . Centimetre.
C/m. . . Call of more (Stock Exchange).
Cml. . . Commercial.
C/N . . Credit note; consignment note; circular note.
Co. . . Company; county.
C.O. . . *Compte ouvert* (open account).
C/O. . . Cash order (banking).
c/o. . . Care of; carried over.
C.O.D. . Cash on delivery.
Collr. . . Collector.
Com. or Commn. Commercial; commission.
Con. . . *Contra* (against).
Con. cr. . *Contra* credit.
Con. Inv. . Consular Invoice.
Con. or Consols. Consolidated Annuities (Government Stock).
Cont. . . Contract; continent continued.
Contg. . . Containing.
Contra . . Against.
Coy. . . Company.

C/P.	Charter Party; custom of ports.
cp.	Compare.
C.p.d.	Charterers pay dues.
C.P.R.	Canadian Pacific Railway.
C.R.	Company's Risk.
Cr.	Credit; creditor.
C.S.	Civil Service.
C/s.	Cases.
Csk.	Cask.
ct.	Cent; credit; current.
Cts.	Crates; cents.
Ctge.	Cartage.
C.T.L.	Constructive total loss.
Cub.	Cubic.
Cum d/–(or div.).	With dividend.
Cum. Pref.	Cumulative Preference.
Curt.	Current month (Scottish term).
C.w.o.	Cash with order.
C.W.S.	Co-operative Wholesale Society.
Cwt.	Hundredweight.
Cy.	Currency.
D.	500.
d.	*Denarii* (pence).
D/A.	Days after acceptance; documents against acceptance; discharge afloat (chartering); Deposit Account.
D.B.	Day Book.
Dbk.	Drawback.
D.C.	Detention clause.
D/C.	Deviation clause.
D/D.	Demand Draft.
D/d.	Days after date; days' date.
Dd.	Delivered.
D.D. and Shpg.	Dock dues and shipping.
Ddt.	Deduct.
Deb.	Debenture.
Dec.	Decrease.
Def. *or* deft.	Defendant.
Def.	Deferred.
Deg.	Degree.
Del cred.	*Del credere.*
Deld.	Delivered.
Dept.	Department.
D.f.	Dead freight.
Dft.	Draft.
dg.	Decigramme.
Diam.	Diameter.
Diff.	Difference.
Dir.	Director.
Dis. or Disct.	Discount.
Dist.	District.
Div.	Dividend; division.
Dk.	Dock.
D.L.O.	Dead Letter Office.
d.l.o.	Despatch loading only.
D/N.	Debit Note.
D/O.	Delivery Order.
Do.	Ditto (the same).
Dols.	Dollars.
Doz.	Dozen.
D/P.	Documents against payment.
Dr.	Debtor; drawer; doctor.
D/R.	Deposit receipt (banking).
D/s.	Day's sight.
Dup.	Duplicate.
D/W.	Dock Warrant.
D/w.	Dead weight.
Dwt.	Pennyweight.
Dy., D/y.	Delivery.
E.	East.
Ea.	Each.
E. and O.E.	Errors and omissions excepted.
E.C.	East Central (postal address).
E.c.	*Exempli causa* (for example).
Ed.	Edition; editor.
E.D.	Ex div., without dividend.
E.E.	Errors excepted.
E.g.	*Exempli gratia* (for example).
E.I.	East Indies.
E.I.D.	East India Docks.
Enclo.(s)	Enclosure(s).
Ency.	Encyclopædia.
Eng.	England; English; Engineering.
Entd.	Entered.
Ent. Stat. Hall	Entered at Stationers' Hall.
E.o.	*Ex officio* (officially).
E.o.h.p.	Except as otherwise herein provided.
Eq.	Equivalent.
Etc.	*Et cetera* (and other things).
et al.	*et alibi*—and elsewhere; *et alii*—and others.
Et seq.	*Et sequentia* (and the following).
Et sqq.	And the things following.

Ex. . . . Examined; exchange; executed; out of; without.
Exch. . . Exchange; exchequer.
Ex cp. . Ex coupon.
Ex cont. . From contract.
Ex div. . Without dividend.
Ex in. . . Without interest.
Ex lib. . *Ex libris* (from the library of).
Ex n. . . Ex new (without the right of new shares).
Exd. . . Examined.
Exors. . . Executors.
Exs. . . Expenses.

F. . . . Feet; folio; franc.
F. *or* Fahr. Fahrenheit.
F.a.a. . . Free of all average.
Fac. . . Facsimile.
F.a.q. . . Fair average quality.
F.a.s. . . Free alongside ship.
Fc. . . Franc.
Fco. . . Franco (free).
Fcp. *or* Fcap. Foolscap.
F.c.s. *or* f.c. & s. Free of capture and seizure.
Fcs. . . Francs.
F/d. . . Free docks; free despatch.
Ff. . . . Folios.
F.f.a. . . Free from alongside; free foreign agency.
Ffy. . . Faithfully.
F.g. . . Fully good.
F.g.a. . . Foreign general average.
F.g.f. . . Fully good fair.
F.i. . . For instance.
Fig. . . Figure.
Fin. . . *Ad finem* (to the end).
Fir. . . Firkin.
F.i.t. . . Free of income tax.
Fl. . . . Florin.
F.L.N. . Following landing numbers.
Fm. . . Fathom.
Fo.; Fol. . Folio.
F.O. . . Firm offer; Foreign Office.
F.o.b. . . Free on board.
F.o.c. . . Free of charge.
Fol. . . Folio.
Folg. . . Following.
For. . . Foreign.
F.o.r. . . Free on rail.
F.o.s. . . Free on steamer.
F.o.t. . . Free on trucks.
F.o.w. . . First open water (chartering).
F.p. . . Fully paid.
F.P. . . Fire Policy.
F.p.a. . . Free of particular average.
Fr. . . French; franc.
Frs. . . Francs.
Frt. . . Freight.
Frt. fwd. . Freight forward.
Frt. ppd. . Freight prepaid.
Ft. . . . Foot; feet.
Fthm. . . Fathom.
F.T. . . Full terms.
F'ture . . Furniture.
F.T.W. . Free Trade Wharf.
Fur. . . Furlong.
Fwd. . . Forward.

G. . . . Gauge; gramme.
G/a. or G.A. General average (marine insurance).
Gall. . . Gallon.
Galls.; gals. Gallons.
Gaz. . . Gazette.
G.B. . . Great Britain.
G.b.o. . . Goods in bad order.
Gdns. . . Gardens.
Gent. . . Gentlemen, Sirs.
Ger. . . German.
G. gr. . . Great gross (144 doz.).
gl. . . . Gill.
G.m.b. . Good merchantable brand.
G.m.b.H. . "Gesellschaft mit beschränkter Haftung"—German private limited company.
G.m.q. . Good merchantable quality.
G.M.T. . Greenwich Mean Time.
G.o.b. . . Good ordinary brand.
Gov.; Govt. Government.
G.P.O. . General Post Office.
Gr. . . Grain; gross.
Gr. wt. . Gross weight.
Grs. . . Grains; gross.
Gs. . . Guineas.
G.v. . . Grande vitesse (quick goods train).
G.W.R. . Great Western Railway.

H.C. . . Held covered.
hf. . . . Half.
Hhd. . . Hogshead.
hl. . . . hectolitre.
H.M.C. . His Majesty's Customs
H.M.S. . His Majesty's Ship.
H.M.S.O. . His Majesty's Stationery Office.
Ho. . . House.

H.O. . . Head Office
H.P. . . Horse-power.
Hr. . . Hour.
Hrs. . . Hours.

I.B. . . Invoice Book.
ib., ibid. . *ibidem*—in the same place.
I.B.I. . . Invoice book inwards.
I.B.O. . . Invoice book outwards.
id. . . . *Idem*—the same.
i.e. . . . *Id est*—that is.
I^{er}. . . . First (French, *premier*).
In. . . . Inch, inches.
Inc. . . Increase; Incorporated (American equivalent of English "Limited" in name of company).
Ince. . . Insurance.
In extenso. At full length.
Ins. . . Inches.
Insce. . . Insurance.
Inst. . . Instant—of the present month; Institute.
Instn. . . Institution.
Instns. . Instructions.
Int. . . Interest.
In trans. . *In transitu* (in transit).
Inv. . . Invoice.
I.O.M. . . Isle of Man.
I O U . . I owe you.
I.R.O. . . Inland Revenue Office.
Iss. . . Issue.
I.T. . . Income Tax.
Ital. *or* Itals. Italics.
I.W., I.O.W. Isle of Wight.

J. . . . Justice; judge.
J/A. . . Joint Account.
JJ. . . Justices.
J.P. . . Justice of the Peace.
Junr. . . } Junior.
Jun. . .
Jr. . . .
Junc. . . Junction.

Kg. . . } Kilogramme.
Kilo. . .
Kilog. . .
Kilos. . . Kilogrammes.
Kl. . . Kilolitre.
Kr. . . Kreuzer (coin); krona; kroner; kronor; kronen.

£ . . . Pound sterling.
£E . . . Egyptian pound.
£P . . . Palestinian pound.
£T . . . Pound Turkish.
L . . . 50.
L/A. . . Letter of authority.
Lat. . . Latitude.
L. & N.E.R. London & North-Eastern Railway.
lb. . . Pound weight.
lbs. . . Pounds weight.
L/C. . . Letter of credit; London cheque; label clause.
l.c. . . . Lower case (printing).
Ld. . . Load.
Ldg. and dely. Landing and delivery
Led. . . Ledger.
L.I. . . Long Island (U.S.A.).
L.I.P. . . Life Insurance Policy.
Lit. . . Litre; Italian lire (coin).
L.M.S. . London, Midland & Scottish Railway.
Long. . . Longitude.
L'pool . . Liverpool.
L.S. . . *Locus sigilli*—place of seal.
L.s.d. . . Pounds, shillings, pence.
Ltd. . . Limited.
Ltg. . . Lighterage; lighting.

M. . . . Thousand, Monsieur, sir.
–/m . . Thousand (as 20/m).
m. . . . metre; mile; minute.
M/a. . . My account.
Mag. . . Magazine.
Mass. . . Massachusetts (U.S.A.).
Max. . . Maximum.
M/C. . . Metalling clause (marine insurance); marginal credit (banking).
M'chtr., *or* M'cr. Manchester.
M.D. . . Memorandum of Deposit.
M/d. . . Months' date (*i.e.*, months after date).
Mdlle . . Mademoiselle, Miss.
Mdme . . Madame.
Mdse. . . Merchandise.
Mem. . . } Memorandum.
Memo . .
Messrs. . Gentlemen, Sirs.
M.I. . . Marginal interest.
Michs. . . Michaelmas.
Mil. . . Milreis (coin).
Min. . . Minimum, minute.

Min. B/L. . Minimum Bill of Lading.
Min. wt. . Minimum weight.
M.I.P. . . Marine Insurance Policy.
Mkt. . . Market.
M/m. . . Made merchantable.
mm. . . Millimetre (French measure of length).
MM. . . Messieurs, Sirs.
M.M. . . Mercantile Marine.
M.M.A. . Merchandise Marks Act.
Mme . . Madame.
M.O. . . Money Order.
M.O.O. . Money Order Office.
Mo. . . Month.
Mos. . . Months.
M/R. . . Mate's receipt.
Mr. . . Mister; Sir.
Mrs. . . Mistress; Madam.
MS. . . Manuscript; mail steamer.
M/s. . . Months' sight (*i.e.*, months after sight).
M.S.A. . Merchant Shipping Act.
MSS. . . Manuscripts.
M.T. . . Mail transfer.
M/u. . . Making up (price).

N. . . . North.
N.A. . . North America.
N/A . . New Account (Stock Exchange).
N.B. . . *Nota bene*—Take note, or mark well; New Brunswick (U.S.A.).
N/C . . New charter; new crop.
N.E. . . North-East.
Nem. con. . *Nemine contradicente*—without opposition.
Nem. dis. . *Nemine dissentiente*—no one dissenting.
Net . . *Netto* (lowest).
N.F. . . Newfoundland.
N/m. . . No mark.
N/N . . No noting.
No. . . Number.
Nom. . . Nominal.
Nom. Cap. Nominal Capital.
N.o.p. . . Not otherwise provided.
Nos. . . Numbers.
N.P. . . Notary Public.
n/p. . . Net proceeds.
N.R. . . No risk (insurance).
N.S. . . New style; new series; Nova Scotia.
N.S.W. . New South Wales.

Nt. wt. . Net weight.
N.W. . . North-West.
N.Y. . . New York.
N.Z. . . New Zealand.

O/a. . . On account of.
Obdt. . . Obedient.
Obs. . . Observe; obligations; obsolete.
O/c. . . Old charter; old crop.
o/c. . . Overcharge; open charter.
Oc. B/L. . Ocean Bill of Lading.
O/d. . . On demand.
O.D.O. . Outdoor Officer (Customs).
O.H.M.S. . On His Majesty's Service.
% . . . Order of; per cent.
‰ . . . Per mille; per thousand.
O.K. . . All correct.
O.M. . . Old measure; gallon.
Ont. . . Ontario (Canada).
O.P. . . Open Policy (insurance).
O.R. . . Owner's risk.
O.R.B. . Owner's risk of breakage.
O.R.C. . Owner's risk of chafing.
Ord. . . Ordinary.
Ors. . . Others.
O.R.D. . Owner's risk of damage.
O.R.F. . Owner's risk of fire.
O.R.L. . Owner's risk of leakage.
O/s. . . On sale; out of stock.
O.S. . . Old style.
O/t . . Old term (grain trade).
Oz. . . Ounce.

p. . . . Per; page.
P/A . . Power of attorney; private account (book-keeping).
P.A . . Particular average.
P. and L. . Profit and Loss.
P. and O. . Peninsular and Oriental Steam Navigation Co.
Pa. . . Pennsylvania (U.S.A.)
Par. . . Paragraph.
Pat. . . Patent.
P.C. . . Post card.
P/C . . Price current; petty cash; per cent.
Pc. . . Piece, prices.
Pcl. . . Parcel.
Pcs. . . Pieces.
P.C.B. . . Petty cash book.

Pd. . . Paid.
P.D. . . Port dues.
Per ann. . *Per annum*, by the year.
Per cent. . *Per centum*—per hundred.
Per pro. . *Per procurationem*—on behalf of.
pf. . . . *pfennig* (German coin).
Pk. . . Peck.
Pkg. . . Package.
P.L. . . Partial Loss (insurance).
P.L.A. . Port of London Authority.
P/m. . . Put of more (Stock Exchange).
p.m. . . *Post meridiem*; afternoon.
Pm. . . Premium.
P.M.G. . Post-Master General.
P/N. . . Promissory Note.
P.O. . . Post Office; Postal Order.
P.o.c. . . Port of call.
P.O.B. . Post Office box.
P.O.D. . Pay on delivery.
P.O.O. . Post Office Order.
P.P. . . Parcel post.
p.p. . . Picked ports (chartering); *per procurationem.*
pp. . . Pages.
Ppd. . . Prepaid.
P.p.i. . . Policy proof of interest (marine insurance).
p.pro. . . *Per procurationem.*
P.P.S. . . A further postscript.
P.R. . . Parcel receipt.
Pr. . . . Pair; price.
Pref. . . Preference *or* preferred.
Pres. . . President.
Prima facie At first sight.
Pro. . . For.
Pro and con. For and against.
Pro forma . As a matter of form.
Pro tem. . *Pro tempore*; for the time being.
Prox. . . *Proximo*—of the next month.
P/S . . Public sale.
P.S. . . *Postscriptum.*
Pt. . . Pint.
P.T. . . Parcel ticket.
Pta; psta. Peseta (Spanish coin).
P.T.O. . Please turn over.
Pts. . . Pints.
P.v. . . *Petite vitesse* (goods train).
P.X. . . Please exchange.

Qlty. . . Quality.
Qr. . . Quarter; quire.
Qrs. . . Quarters.
Qt. . . Quart.
Qtn. . . Quartern.
Qto. . . Quarto (4to).
Qts. . . Quarts.
q.v. . . *Quod vide*; which see.
Qy. . . Query.

R. . . . Rupee; rouble.
R.C.H. . Railway Clearing House.
Rd. . . Road.
R.D.C. . Running-down clause (insurance); Rural District Council.
re . . . With reference to.
recd. . . Received.
Rect. . . Receipt.
Ref. . . Reference.
reg., regd. Registered.
regs. . . Registered tonnage.
Retd. . . Returned; retired (bill).
Rev. A/C. Revenue Account.
R.I. . . Re-insurance.
RM. . . Reichsmark.
rm. . . ream.
R.M.S.S. . Royal Mail Steamship.
R.N. . . Royal Navy.
R.O. . . Receiving Office; Receiving Order.
Ro. . Rouble(s).
R.P. . . *réponse payée* (reply paid).
R.R. . . Railroad.
Rs. . . Rupees; roubles.
R.S.O. . Railway Sub Office; Railway Sorting Office.
R.S.V.P. . *répondez, s'il vous plaît* (please reply).
Rx . . Tens of rupees.
Ry. or Rly. Railway.

$ . . . Dollars.
s. . . . shilling; son.
S. . . . South.
S.A. . . Subject to approval; South Australia; South America; South Africa; "Société Anonyme"—French registered company.
S. & F.A. . Shipping and Forwarding Agent.
Salop . . Shropshire; Shrewsbury (old name).

sc. . . . *scilicet* (namely, to wit).
s/c. . . *son compte* (his, or her, account).
S.caps., Sm. Caps. Small capitals (printing).
Sched. . . Schedule.
s.d. . . *sine die* (indefinitely).
sec. . . section; secretary.
S.E. . . South-East.
S.E.e.O. . *Salvis erroribus et omissis* (errors and omissions excepted).
seq. . . Following.
Servt. . . Servant.
S.g. . . Specific gravity.
Sgd. . . Signed.
Sh. . . Share.
Shipt. . . Shipment.
Shr. . . Share.
S.I. . . Short interest (insurance).
Sig. . . Signature.
Sine die . Without a day appointed — indefinitely.
Sk. . . Sack.
Sks. . . Sacks.
S.L. . . Salvage loss.
Sld. . . Sailed.
S/N . . Shipping Note.
S.o. . . Seller's option.
S.O. . . Sub-office; Stationery Office.
Soc. . . Society.
Sov. . . Sovereign.
Sovs. . . Sovereigns.
S.P. . . Supra Protest.
S.p.d. . . Steamer pays dues.
Spec. . . Speculation.
Spot . . Goods are in stock; ready for delivery.
Sq. . . Square.
Sq. ft. . . Square feet.
Sq. in. . . „ inches.
Sq. m. . . „ miles.
Sq. yd. . „ yards.
S.R. . . Southern Railway.
S/S, SS., ss. Steamship.
S'sea. . . Swansea.
St. . . . Saint; street; straits; *stet* (let it stand).
st. . . . Stone (in weight).
s.t. . . . Short ton (2000 lb.)
Std. . . Standard.
Stg.; Ster. Sterling.
Stk. . . Stock.
S. to S. . Station to station.
Str. . . Steamer; street (German, *strasse*).
S.W. . . South-West.
Sx. . Sussex.
S/y . . Steam yacht.

T. . . . Tons; tare.
tal qual or tel quel — *talis qualis*—such as they are; just as they come.
T.B. . . Trial balance.
T/C . . Till countermanded.
T.E. . . Trade expenses.
Tel. Add. . Telegraphic Address.
Tele. . . Telephone.
Thro' B/L. Through Bill of Lading.
T.L. . . Total loss.
T.L.O. . Total loss only (marine insurance).
T.M.O. . Telegraphic Money Order.
T.O. . . Turn over; Telegraph Office.
Tonn. . . Tonnage.
Tot. . . Total.
T/q. . . *Tale quale* (grain trade).
T.R. . . Tons registered (shipping).
Tr. . . . Trustee.
tr. . . . Tare.
Treasr. . Treasurer.
T.T. . . Telegraphic transfer.

U.a. . . Underwriting account (marine insurance).
U/c. . . Undercredit; upper-case—capitals (printing).
U.K. . . United Kingdom.
U.K.C. . United Kingdom or Continent.
Ult. . . *Ultimo*—last month.
U/p. . . Under proof (spirits).
U.S. . . United States.
u.s. . . *ut supra*—as above.
U.S.A. . United States of America.
U/w. . . Underwriter.

V . . . 5.
v. . . . *Versus*—against.
Var. . . Various.
Via . . By way of.
Vid. . . *Vide*—see.
Viz. . . *Videlicet*—namely.
Vol. . . Volume.
v.v. . . *vice versa*, the exact opposite. *viva voce*—orally, by word of mouth.

W.	West.
W.A.	Western Australia; West Africa; warrant attached; with average.
W.B.	Warehouse book; way bill.
w.b.	Water ballast (shipping).
W.C.	West Central (postal address).
Wd.	Warranted.
w.f.	Wrong fount (of type).
Whf.	Wharf.
W.I.	West Indies.
Wk.	Week.
Wks.	Weeks.
W.O.B.	Washing overboard.
W.P.	Without prejudice (insurance).
Wt., wgt.	Weight.
W/W	Warehouse warrant.
X	Ten; multiplied by.
x.c.	Ex coupon.
x.d.	Ex dividend.
x.in.	Ex interest.
x.n.	Ex new.
Y/A or Y.A.R.	York-Antwerp Rules (marine insurance).
Yd.	Yard.
Yday.	Yesterday.
Yds.	Yards.
Yr.	Your; year.
Yrs.	Yours; years.
&	And.
&c.	And the rest: and so on.
@	At; for; to; from.
#	Number, numbered.
∴	Therefore.
∵	Because.
′	Foot (measure).
″	Inches (measure).
°	Degree.
×	Multiply by.

INDEX

C

E